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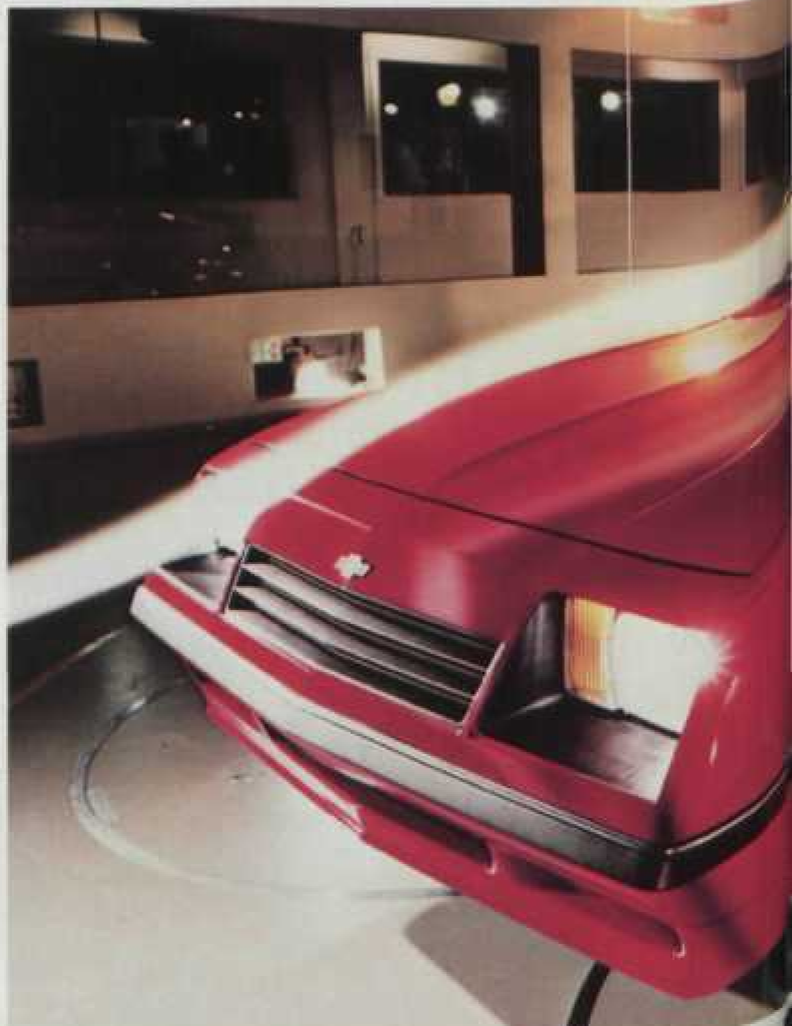

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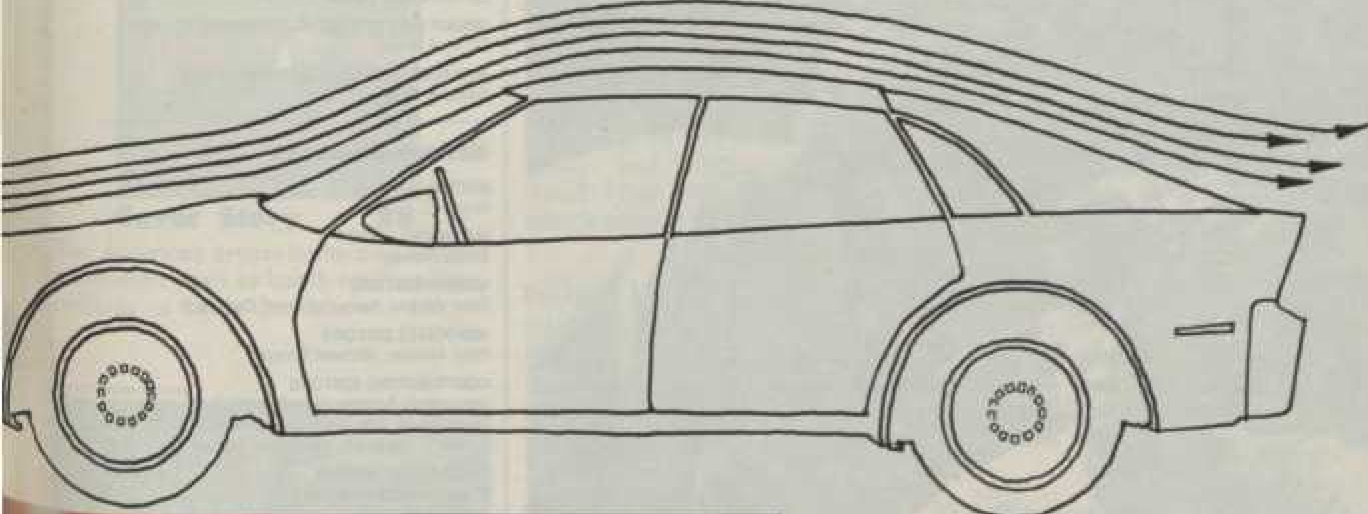

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Vol. 70, No. 9

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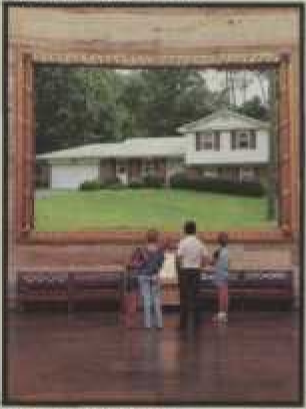

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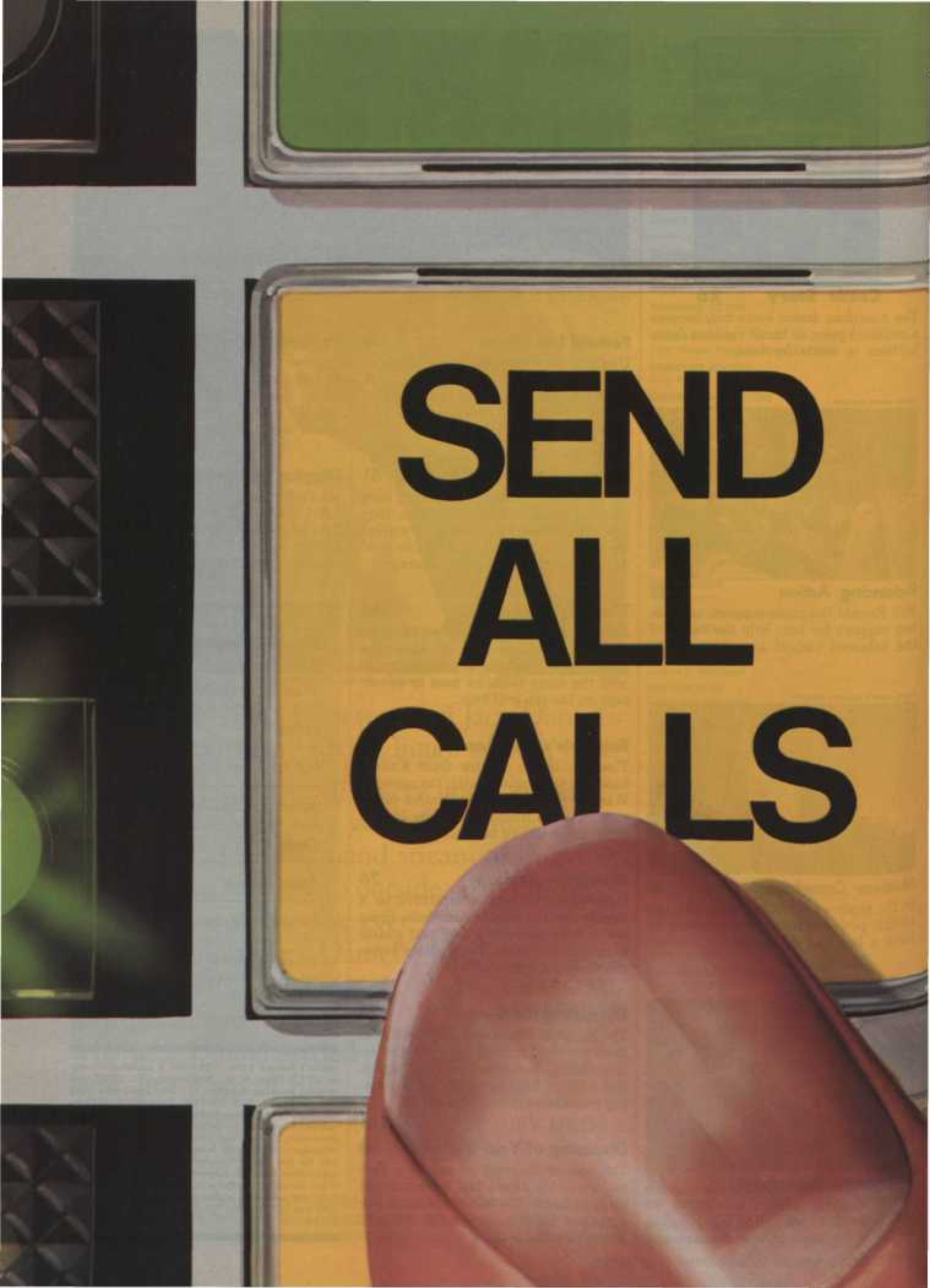
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Building on strength

WASHINGTON LETTER

▶ BIG POLITICAL QUESTION in wake of passage of tax bill: Was best course affirmative vote upholding Reagan or negative vote based on opposition to higher taxes? November election results could provide answer.

▶ TREND IN FEDERAL SPENDING continues upward, according to analysis by Federal Reserve Bank of New York. Bank's experts dispute budget projections of both Congress and administration. Planned tax increases appear real enough, they conclude, but many of anticipated spending cuts are little better than wishful thinking. Bank's projection for fiscal 1983 is federal spending running at 24.3 percent of GNP. Official estimate in first budget resolution is 22.8 percent. In last year of Carter administration, figure was 22.5 percent.

▶ MAJOR CUTS will be necessary in growth rate of entitlement programs next year to get federal deficit down, says budget director David Stockman. Social Security, though not mentioned specifically, is largest of these programs.

▶ TYING SOCIAL SECURITY benefit hikes to wage increases rather than price increases is idea receiving favorable consideration from presidential commission studying future of system. If change were made, beneficiaries would do better in noninflationary times and worse during spurts of inflation. Report of commission is due by year-end.

▶ FURTHER EVIDENCE of forthcoming administration drive to cut spending on entitlement programs can be found in selection of new head for Council of Economic Advisers, Martin Feldstein. Feldstein, a Harvard economics professor, is moderate supply-sider. He favors cuts in taxes and in domestic spending--especially entitlement programs--but has also expressed willingness to postpone third year of personal tax cut to help reduce deficit. Like his predecessor, Murray Weidenbaum, he takes dim view of government regulation.

▶ SLOW PACE of regulatory reform is worrying some business groups. Reagan's troops are given credit for numerous procedural improvements and for reducing air of hostility formerly prevailing between federal regulators and their prey. But, say critics, administration hasn't done enough in legislative arena. Omnibus regulatory reform bill has been stalled in House for months. Clean Air Act revision is caught in tug-of-war between proindustry and proenvironmentalist factions in House and Senate. Bill to dismantle Energy Department--subject of Senate hearings--has not even been introduced in House.

▶ PROGRESS of Clean Air Act revision is hampered by dispute over acid rain. Senate Environment Committee has approved new rules to reduce smokestack emissions believed by some experts to cause acid rain. But rules would impose billions of dollars in cleanup costs, raising electric utility rates in East and Midwest. Consequently, legislation will meet stiff opposition from House members representing affected areas.

▶ NEW AFL-CIO POLICY providing for early endorsement of presidential candidate --before primaries--has both advantages and disadvantages for Democratic Party, which is certain to be focus of labor federation's attentions. Major advantage is that labor influence will

probably prevent temporary capture of party by such mavericks as George McGovern and Jimmy Carter. Biggest disadvantage is that it will tend to freeze out new faces in favor of old party regulars, who don't excite voters.

▶ DOLE FOR PRESIDENT? Powerful chairman of Senate Finance Committee hints that it's possible. If President Reagan doesn't run again, "there may be some of us looking around," Dole says. However, he expects President to seek re-election.

▶ GOOD NEWS on inflation, bad news for farmers: Latest crop forecast from Agriculture Department predicts record soybean and corn harvests, with wheat not far behind. One effect will be to further depress already depressed farm income. Another will be to hold down rise in consumer price index. Monetarist economists say price increases are sign of inflation, not cause. But price indices used to measure inflation are sensitive to price changes in major sectors, such as energy and food.

▶ CREDIT CONTROLS are not likely in foreseeable future, despite bills to revive them in House and Senate. Same goes for attempts to require Fed to maintain any particular interest rate. Neither Treasury nor Fed wants controls. They were last attempted in spring of 1980, with disastrous consequences. Motive behind current spate of bills seems more political than economic.

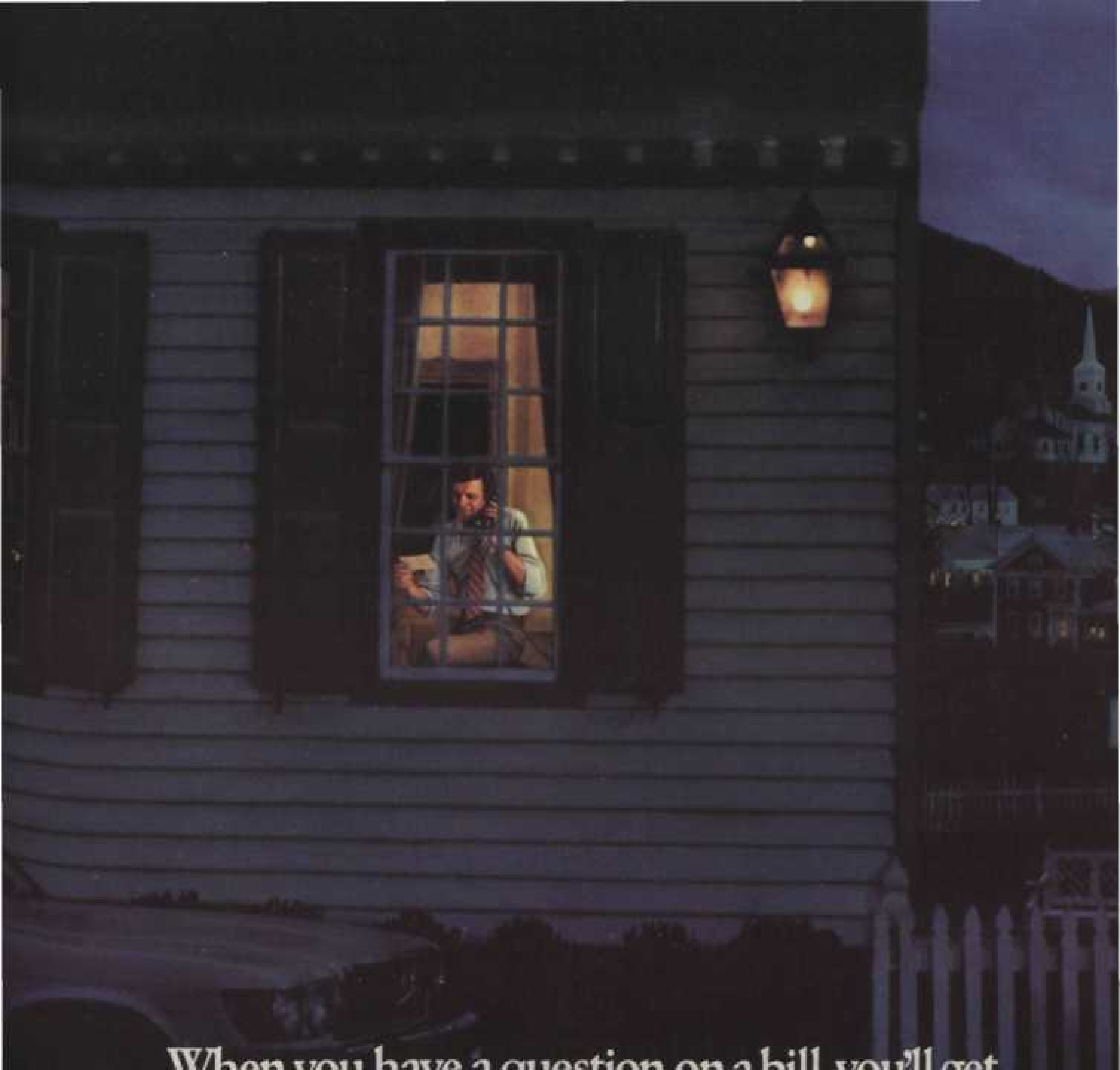
▶ UNEMPLOYMENT compensation outlays, though high, are not running as high as forecast in original projections used by administration to formulate fiscal 1983 budget. Latest figures from Labor Department estimate jobless outlays for 1983 to exceed unemployment tax receipts by $2 billion or so. That's $1 billion less than originally forecast. Reason? Though total unemployment is higher than expected, insured unemployment is lower. Also, fewer states than predicted have been paying extended benefits--37 for fiscal 1982, rather than expected 46. Lower outlays will mean diminished need for Treasury to lend money to trust fund, casting doubt on justification for $7 billion unemployment tax increase in administration's tax bill.

▶ DOMESTIC CONTENT legislation appears to be foundering. Similar House and Senate bills would require that cars sold in U.S. contain specified amount of American-made parts. Idea is pushed by labor interests as way to create new American jobs. Opponents say it would boost price of car by 10 percent and provoke international trade war, endangering many export jobs in U.S.

▶ FEWER BUT LARGER. That's trend of foreign investment in U.S., according to latest Commerce Department figures. Foreign investors acquired or started 875 American businesses in 1981, far below total of 1,659 for 1980. But investors spent $19.2 billion on deals in 1981, compared with $12.2 billion one year earlier. Decline in investments in U.S. real estate accounts for change to fewer, larger purchases.

▶ 1983 PRIORITIES of Consumer Product Safety Commission: Making chain saws and heating equipment safer, making furniture and bedding less susceptible to smoldering ignition, reducing children's exposure to carcinogens in rubber and plastic products and to hazardous chemicals in school laboratories, promoting smoke detectors, reducing formaldehyde emissions from plywood and particle board, reducing exposure to combustion products from fuel-fired appliances, and further reducing accidental ingestion of prescription drugs by young children.

▶ WISDOM from new Secretary of State, George Shultz: "One of the most difficult problems for economic policy is finding ways to do nothing while waiting for the lagged (or delayed) effects of actions already initiated to work their way through the market process." Comment is from 1977 book Shultz co-authored with Prof. Kenneth Dam of University of Chicago, Economic Policy Behind the Headlines.



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LETTERS

Bind Hill Pay to Budget?

Re: "The Budget Mess on the Hill" [July].

One more item should be added to the Chamber's recommendations to put some starch in the congressional spine: "Require that a binding budget resolution be passed by April 15 or the entire congressional apparatus goes on a no-pay status until a proper resolution, acceptable to the President, is passed."

By congressional apparatus I mean everyone paid from congressional funds. This includes the elected members, all committee and staff people, the field offices of the members, the Printing Office, the Library of Congress, clerks, pages, chauffeurs, janitors and guards.

Money talks. Not only would we get a budget on time, we would save money because people would be working instead of procrastinating and passing the buck.

L.W. KEHE
President
Cedar Valley Engineering Company
Waverly, Iowa

Thanks, DOE

Re: "Home Appliance Standards" [Outlook, July].

Congratulations to the Department of Energy for opposing the implementation of federal and state mandatory standards on appliances. It is gratifying to learn that someone in the government believes we can survive without a bevy of regulations.

I believe companies are always trying to improve their products because of competition, which is the greatest incentive, not regulation. Government agencies should not use demands and threats to accomplish their goals.

We would do well to give thought to these words of Gen. George S. Patton: "Never tell people how to do things. Tell them what to do, and they will surprise you with their ingenuity."

HAROLD S. MARSH
Hopkinsville, Ky.

Marketing the arts

"Contributions to Culture" [July] focused on the need for business' support of the arts. That support could serve America well if it were channeled toward developing young artists and assisting devoted instructors and masters.

I agree with Jay Van Andel's statement that support for symphonies and the performing and exhibiting arts should come from those who enjoy it. Perhaps consumer research could lead the arts to offer their communities entertainment that a greater number of residents would cheerfully pay to enjoy. As with many organizations—profit and nonprofit—the beneficiary needs to be a contributor. The challenge is to identify demand and satisfy it.

GEORGE W. CONE
Public Relations Manager
Red Lobster Inns of America
Orlando, Fla.

A pair of problems

Two July articles, "Crusade for Young Americans" and "The Sorry State of the Unions," were seven pages apart but should have been side by side.

The tragedy of mass unemployment among our nation's youth is essentially a problem of pricing. Relatively unskilled and entry-level labor services are more or less permanently priced out of full employment by union wage aggression and government price fixing.

The market is not allowed to freely value resources and products, and therefore output is kept below capacity. The situation is devastating for the minority teen-agers who will never have an opportunity to increase their value in the marketplace.

MORGAN REYNOLDS
Editor, Pathfinder
Texas A&M University
College Station, Tex.

No source, no spending

Congress has built up its popularity by giving away billions of borrowed dollars. That money must be paid back by future generations.

At some point in time, Congress must take responsibility for its foolish, politically motivated acts and remove the debt. It must enact legislation requiring a financial impact study of each piece of

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legislation and specifying the source of required funds. Government borrowing must be limited to specific projects with the source of the required funds defined. No refinancing of the debt would be allowed.

The government must immediately cut expenses by reducing taxes and limiting its borrowing power, thus forcing a cut in spending. The government must learn to act like any responsible business.

WILLIAM P. STRICKLAND
President
Bryson Coating Laboratory
Safety Harbor, Fla.

Another side of the coin

Re: "Torn up in Florida" [Letters to the Editor, July].

In response to Eddie Mills' criticism that you are slanting your articles to a "pro-Reagan/anti-Democrat" stand, I feel his barbs are totally unfounded.

The foremost reason I read NATION'S BUSINESS is that you are not afraid to show both sides of the coin. Your reporting is totally fair.

Thank heavens your magazine looks to a bright future, unlike Mills, who obviously believes that behind every cloud is another, even darker cloud.

Bravo, NATION'S BUSINESS. March on!

F. DARRELL BOYD II
President
Data Associates
Humboldt, Tenn.

I do not believe NATION'S BUSINESS is biased. President Reagan's economic policy is not in trouble. It is working, and given time (which the liberal Democrats don't want), it will put this nation back on its feet.

"Torn up in Florida" should have read: "Trying to tear down America."

DEAN BENTON
Conroe, Tex.

Kennedy and taxes

I have been reading many articles on opinions voiced by Sen. Edward Kennedy (D-Mass.) and his commitment to a liberal philosophy.

I am not committed to any political party. The senator and the citizens of this country should be aware that he is not living in the real world. He was born rich and has never had to worry about where his next dollar was coming from or how to pay his taxes.

The only way the senator can effect his proposals is to put a greater burden of taxes on the working people of America. We're lucky that his proposals have not become law.

It is not for the government to create jobs or be responsible for the unemployed. I suggest Sen. Kennedy look at what Japan is doing in its economic endeavors.

If this country enacted what Sen. Kennedy proposes, we would no longer be a democratic nation but would end up being a socialistic society.

PETER DIFOGGIO
Administrator
Braeburn Nursing Home
Waban, Mass.

Too much help from SBA?

"SBA: Confronting Its Own Problems" [August] was very enlightening, particularly the portion concerning the 8 (a) minority business procurement assistance program. My temperature rose when I read that most of the 2,000 participating firms did not want to graduate from 8 (a) because they had not developed the skills to make it on their own.

I have been checking on the terms of the program and, to my amazement, find that 8 (a) contractors do not bid on a competitive basis, but submit their quotes in the amount they feel comfortable with to perform the work. All the time they know they are not going to be compared with any hard dollar competition.

I also discovered that although a contractor with only limited financial stability would be accepted into the 8 (a) program, several contractors have become wealthy.

It is no wonder that once they are in the 8 (a) program they do not want to get back out there in the real world.

BRAND MEDLIN
President
Globe Continental Corporation
Columbus, Ga.

High cost of low labor

Your picture on page 26 of the August issue ["Highway Needs Vs. the Budget Crunch"] shows the real reason for the high costs of highway repair. I count 10 members of the road crew and only three or four seem to be working. In my travels I find this to be the rule, not the exception.

DOUGLAS FAIRCHILD
Tire Systems, Inc.
Grand Rapids, Mich.

Finding the *Hideaway*

I read with a great deal of interest "Let a Newsletter Do the Walking" [July] regarding Andrew Harper's *Hideaway Report* and would appreciate receiving more information on this.

P. ROBERT SIENER, JR.
President
Cooley Incorporated
Pawtucket, R.I.

Editor's note: Harper's address is Hideaway Report, P.O. Drawer 300, Fairfax Station, Va. 22039. Or call (703) 250-9080.

To Buy or Not To Buy

By Samuel H. Murray

It's tempting to buy research and development equipment, since you can write off the expenditure over three years and take a 10 percent investment tax credit. However, only certain expenditures qualify for the R&D 25 percent tax credit, and depreciation deductions are not among them. Rentals of R&D equipment, on the other hand, qualify. So the rent is deductible, and you may be able to persuade the lessor to pass the investment tax credit on to you.

The administration included in a pending technical corrections bill a provision to disallow rentals as a qualifying expenditure in computing the R&D tax credit. But the Ways and Means Committee accepted an amendment restoring rentals as a qualifying expenditure except when the renter is leasing a similar piece of equipment to the lessor (swap leasing).

Saving for College Tuition

There are a number of ways to accumulate income for your children's college education and have the income taxed in their tax brackets, which would be lower than yours. You could make gifts of money outright to the children. If they are minors, you'll have to appoint a legal guardian.

Or you could give them money or stock under the Uniform Gifts to Minors Act—in effect setting up an informal type of trust.

The problem with both of those methods of shifting income to lower tax brackets is that when the children reach majority, you cannot control how the funds will be spent. By transferring property to a trust for the benefit of the children, you can specify how the income and corpus are to be used. But setting up a trust may be costly.

Another popular method is to make an interest-free demand loan to the children. The children can invest the money and use the interest as they please, but the parent retains control over the original amount. You incur no gift tax when making an interest-free demand loan to your children. However, you may owe gift tax on outright gifts or gifts made under the Uniform Gifts to Minors Act and on a trust. The tax liability depends on the amount transferred to the trust and whether the trust corpus reverts to you after 10 years. However, the 1981 revisions in the estate and gift tax laws enable you to give $10,000 a year to each child without incurring any gift tax. You and your spouse may give $20,000.

Debt-Equity Rules Tabled

Good news for small business: Treasury has indefinitely postponed the so-called debt-equity regulations. Back in 1969, Congress authorized Treasury to issue regulations for determining whether a corporate instrument is truly debt or whether it is an equity interest. Almost 12 years later the Carter administration ventured into this thicket—and emerged with a complex set of proposed regulations that few people could understand. The regulations were rewritten several times but were still too long and too involved and would have trapped small business owners in all manner of tricky details.

The latest set was scheduled to take effect on July 1, 1982. At the last moment, bowing to pressure from small business groups and Congress, Treasury decided to postpone indefinitely the issuance of these regulations. (The official announcement does not say that exactly, but a reading between the lines indicates that intention.) If Treasury were to move ahead, Congress would probably enact a bill to impose a moratorium on the enforcement of the regulations.

Extended Extensions on Filing

Automatic extensions to file income tax returns will be four months instead of two months starting next year. Thus, any taxpayer wishing to file his 1982 return later than April 15, 1983, can simply file Form 4868 and automatically get an extension of four months. As before, the taxpayer must make his best estimate of the balance due and enclose payment.

The change gives taxpayers another two months to make their 1982 tax-deductible contributions to Individual Retirement Accounts or Keogh plans. Gift tax returns can also be delayed.

Housing Expenses as Alimony

Whether costs incurred by a taxpayer for a residence occupied by the ex-spouse are deductible alimony depends on several factors. First, if the payments are voluntary, they are not alimony, since an expenditure counts only if it is paid under a court order or separation agreement.

The nature of the expenses is another factor. Mortgage amortization payments are not alimony unless the ex-spouse gains an ascertainable current economic benefit. For example, if the former spouses were jointly liable on the mortgage, then the payment of the mortgage reduces the liability of the ex-spouse and should qualify as alimony. Generally, the same rule holds for interest on the mortgage, insurance and real estate taxes.

Utility bills usually qualify as alimony, but maintenance expenses are less certain.

Some courts have required that the ex-spouse receive a current economic benefit; others simply treat such expenditures like rent. Most rent and rentlike payments are treated as alimony.

Mere occupancy of the residence by the ex-spouse is not enough—he or she must gain some currently accruing economic benefit. Only that portion of the payments equal to the fraction of ownership of the ex-spouse will be deductible.

Interest and taxes that don't qualify as alimony may be taken by the paying spouse as itemized deductions. However, alimony deductions are more valuable than itemized deductions because alimony is deducted "above the line" and reduces adjusted gross income. Thus you may be able, for example, to deduct more medical expenses. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific and individual cases.*

SAMUEL H. MURRAY *is a principal with Arthur Andersen & Company in Washington, D.C.*

Equal Rights Amendment, RIP

ON JUNE 30, at the record-book age of 10, the proposed Equal Rights Amendment to the Constitution was laid to rest. On July 14, otherwise observed as Bastille Day, 51 senators and 200 members of the House resurrected this dubious proposition by reintroducing the original resolution unchanged. I wish they would let the old girl rest in peace.

The purpose of the ERA is to write into the Constitution a provision saying that "Equality of rights under the law shall not be denied or abridged by the United States or by any state on account of sex." Congress would be given power to enforce the ERA's provisions by appropriate legislation. The amendment would become effective two years after ratification.

That is the whole works. Congress sent the proposal to the states in 1972. Thirty states promptly ratified, most of them by lopsided votes after little debate. Then the steam leaked out. In the end, after an unprecedented 10-year period had been provided for state action, 35 states ratified; five of those states undertook to rescind their ratifications. When time ran out on June 30, no state had ratified since Indiana in 1977. End of chronology. Then came Bastille Day, when 63 members of the House filled 22 pages of the *Congressional Record* with fervent vows to try, try again.

Within the private sector, much can be done by moral suasion...

Political pathologists, doing a postmortem on the ERA, have suggested several causes of death. Many critics saw trouble in the undefined reference to "rights under the law." State legislators were uneasy at the new powers that would be vested in Congress. Underlying much of the hostility was a feeling that the amendment would mandate a kind of unisex society. Just as the Fourteenth Amendment has created a color-blind requirement at law, wiping out all distinctions on account of race, so it was feared that the ERA would wipe out all distinctions on account of sex. The shrewish behavior of some proponents alienated many state legislators. Opponents of the ERA ran a skillful campaign against the amendment. There were other factors. Let it go.

Instead of prolonging the bitterness that accompanied the last days of the 1972 resolution, Congress might better turn its attention to the constructive things that might be done by statutory law. On June 28 the Civil Rights Division of the Justice Department released an impressive report on what already has been accomplished—and what yet remains to be accomplished—toward the repeal of discriminatory statutes at the federal level. The problem, "while not inconsequential, is plainly not overwhelming." Congress already has provided that in construing federal laws, "unless the context indicates otherwise ... words importing the masculine gender include the feminine as well." Another act provides that male and female federal employes and their families must be treated alike in terms of federal benefits. In 1978 and again in 1980, Congress went a long way toward eliminating gender-based distinctions as to military personnel.

Even so, the Justice report cites scores of statutes that still contain "uncorrected sex bias." For example, use of rifle ranges is restricted to "able-bodied males." A different allowance for uniforms is provided for "women appointees." Women may not be assigned to combat duty with the Navy. Other laws involve such diverse areas as Social Security, coal mining, child care, agricultural loans, the merchant marine and Indian affairs.

The prudent, rational, politically acceptable course would be for Congress to review these remaining "sex bias" statutes one at a time. The hour may have come to rewrite the law on attachment of a seaman's wages. But the hour may not have come to put women sailors in the crowded sleeping quarters of a destroyer. Leg over leg the dog goes to Dover. The ERA proposes to do everything at once—and that seldom is a good rule in public affairs.

The state legislatures have the same responsibility to review and selectively to reform their laws. The Fourteenth Amendment remains a most useful instrument, as the Supreme Court demonstrated in July with its ruling in the matter of a male's admission to the all-female Mississippi University for Women. Within the private sector, much can be done by moral suasion and by the expanding role of women in the labor force and the marketplace.

It needs to be emphasized that the ERA, by itself, provides no remedy for the most familiar grievances—for example, that waiters average $200 a week and waitresses only $144. The ERA cannot put women in the boardrooms of giant companies. In truth, we do not know exactly what the ERA would do, but I venture this—that after 10 years of hot tempers and boiling passions, it's time to let things cool. □


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Bill Promises To Remedy SBA's Problems

Rep. Parren J. Mitchell (D-Md.), who calls the Small Business Administration "a political dumping ground," proposes a bill to do something about that.

Rep. Parren J. Mitchell (D-Md.), chairman of the House Small Business Committee, who has been complaining about poor management at the Small Business Administration for a long time, has now fashioned a bill to do something about it.

The culprit, Mitchell says, is the agency's "politically abused personnel system." His bill, H.R. 6824, the SBA Personnel Reform Act, may get a hearing this year and stands a good chance of passage with bipartisan support next year, according to the committee's legislative counsel, Thomas A. Trimboli. "Through the years the SBA has managed to offend both parties," the aide says.

Mitchell contends the SBA's 49 slots for political appointees make the agency a "political dumping ground." His principal remedies:

- Cut the number of political jobs to seven.
- Ban reassignments on the basis of political activity or affiliation. Employes should be reassigned only for more effective management.
- Require 80 percent of SBA workers to be stationed at the 70 district offices by September, 1987. Only 64 percent of employes currently deliver services to the small business community through the field offices. The 80 percent requirement must be met "to the maximum extent practicable" through attrition and a revised hiring pattern rather than reassignment, Mitchell says.

Electronic Economics Could Help Set Policy

Small business is close to being plugged into decision making on major economic issues.

The Small Business Administration's data base project, started in 1979, is about a year away from the debut of a computer model that would be capable of simulating the effect of federal tax policy changes on a large, representative group of small firms. The model is based on information gathered by Dun & Bradstreet.

Meanwhile, the Heller Small Business Institute, a nonprofit group sponsored by Walter E. Heller International, has prepared a small business data bank based on the Census Bureau's *County Business Patterns*. It focuses on employment, payroll and productivity in firms with 500 or fewer employes. The drawback: The data include small units owned by larger firms.

Still, the Heller and SBA efforts can fill a vacuum. "When the Treasury Department proposes tax changes and tax regulations, it should know how they will affect business by size class," says Bruce Phillips, senior economist at the SBA Office of Advocacy.

He says that Treasury as well as congressional tax-writing committees and the Office of Management and Budget as yet don't have the information they need to evaluate the likely result of their policies and decisions on small business.

Some of the SBA data base is already on-line, notably small-firm profits by industry and size class.

Few Businesses Take Advantage of New Law

Small firms aren't making much use of the Equal Access to Justice Act, a law designed to discourage federal agencies from making unwarranted tax and regulatory rulings.

The law now permits small business people to recover their legal fees from agency budgets when they challenge a ruling and win. The agency must prove its actions were "substantially justified" or pay up.

The Justice Department feared the law would cost agencies $125 million in its first year.

Instead, judgments will probably total less than $1 million for about 100 cases where small firms have sought legal fees in courts and from administrative judges, says Stephen L. Babcock, executive director of the Administrative Conference of the United States, which monitors the law.

A Small Business Administration official who follows Equal Access cases speculates that "small firms still aren't aware they can petition for their legal fees." The National Labor Relations Board has 22 cases pending, more than any other agency, he says.

Babcock suggests that agencies, well aware that Equal Access took effect last October, are carefully choosing the cases they pursue. There may also be more out-of-court agreements in which legal fees are part of the settlement, he says.

AGRICULTURE

U.S. Encourages More Silos, Smaller Surplus

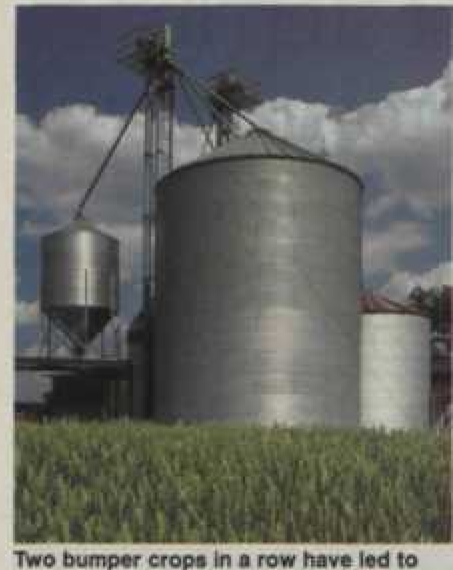

PHOTO: CONTEH—UNIPHOTO

Two bumper crops in a row have led to a building boom in grain storage bins.

The Agriculture Department is forecasting spot shortages of storage space for this year's bumper grain crop and is lending up to $40 million to farmers to build storage facilities. Loans are limited to $25,000 and are not available to commercial companies.

Low prices have made it more profitable for many farmers to store grain from last year's abundant crop than to sell it.

Stocks are thus at record-high levels, and demand has been weak because the recession abroad and a strong U.S. dollar have put purchases beyond the reach of some countries.

Much of the grain has been stored under Agriculture's reserve program, which allows farmers to borrow money against their grain while the government pays annual storage costs of 26.5 cents a bushel. After three years, a farmer can sell the grain and repay the loan with interest, or he can sell it whenever market prices rise.

In an effort to curb the increasing surplus, the Agriculture Department announced that to be eligible for some support programs, farmers must reduce their 1983 wheat production by 20 percent.

The programs include loans for building storage space, the reserve arrangement and direct payments that will give farmers the difference between the market price and the target price for wheat. So far no similar request has been made of corn producers.

The demand for additional storage capacity has brought about a minor building boom in Midwestern farm regions, where business at companies that make circular steel bins has been almost double that of last year.

New Watering Holes Fill Today's Needs

A modern approach to the old watering hole promises survival for wildlife and livestock and a source of drinking water.

Water harvesting goes back a long way: 4,000 years ago, farmers in the Negev Desert in Israel stored rainwater that ran off slopes in catch basins.

The scarcity of water and forage grass in the West prompted Department of Agriculture researchers to waterproof slopes to increase runoff, seal the storage tanks to reduce evaporation, and design storage capacities for erratic precipitation. Paraffin wax is sprayed on the soil to make it water-resistant.

Says Gary W. Frasier of the department's Agricultural Research Service, "Water harvesting also has potential for high-rainfall areas, such as Hawaii. There, water harvesting is even more cost-effective because the soil is so porous that no surface water accumulates."

COMMUNICATIONS

Paper Work Ebbs Because of Tax Law

The long-awaited paperless office is still somewhere down the road, but an office that uses far less paper than any do now has been made more feasible by the equipment leasing rules contained in last year's Economic Recovery Tax Act.

Kenneth Bosomworth, president of International Resource Development, a market research firm in Norwalk, Conn., says there has been an upsurge in leasing of office automation equipment, such as copiers, duplicators, facsimile machines, dictating equipment and the newest wrinkle, all-in-one executive work stations.

"Although Congress may tone down some of the leasing incentives in the 1981 tax act, such as pure swapping of tax credits, equipment leasing activity won't significantly drop," Bosomworth says.

Changes proposed by the Senate Finance Committee still allow a 50 percent investment tax credit on leased property in the first year and 25 percent during the next two years, he points out.

Among the new Internal Revenue Service guidelines that have boosted equipment leasing is one saying the lessor's minimum at-risk investment must equal only 10 percent of the cost of equipment. Under the old rule, the at-risk requirement was 20 percent.

Cellular Radiophone? Tune in Next Year

When will cellular radio reach your town? If your city is one of the nation's 30 largest, the high-tech mobile phone system could arrive as early as November, 1983.

Then again, court tests could push it back at least a year. The hubbub revolves around a Federal Communications Commission decision to award two cellular radio franchises in each city, one to a telephone company and one to a nonphone company.

The FCC says uncontested licenses to phone companies could be issued as early as this month. But the Justice Department and several communications firms worry that agreements between American Telephone & Telegraph and General Telephone & Electronics not to compete for franchises would give them a year's head start.

A cellular system will be a great improvement over today's radiophone service with its two-year-plus waiting lists and strictly limited capacity.

Rather than having to rely on a single powerful transmitter to connect callers with regular phone lines, a cellular radio system employs low-power transmitters that serve a limited area, or cell.

The limited range of each transmitter permits the same frequency to be used simultaneously in different cells.

PHOTO: ADVANCED MOBILE PHONE SERVICE

New radiophone technology is already used in Japan and Sweden. When will U.S. executives get it?

"WHAT THEY DID WITH RICHMOND'S OLD TRAIN STATION ASSURED ME OUR CORPORATE MOVE WAS ON TRACK."

Hays T. Watkins
Chairman,
CSX Corporation

"A laser exhibit in an old train station? I was impressed.

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"In Richmond, CSX found a business climate well-suited for growing companies. A lot of places make that claim, but here it was clearly demonstrated in a number of ways. Strong local economies, for example—both in the city and in surrounding counties. A skilled work force. And an impressive and diverse list of companies already prospering in the area.

"The location itself seemed ideal. Richmond sits at the top of the Sun Belt. But at the same time, the city is convenient to Washington and New York.

"We made our decision to come here, and a happy decision it's been. Our employees love this area—and so do their families. It's an attractive, sensible place to live. And our new downtown offices are only minutes from where our people live.

"Then, there's that science museum. Imagine, lasers, computers and a planetarium in an old train station. To me, it's a symbol of a place that cares not only about its fascinating past, but also about its future. Not to mention the future of CSX Corporation.

"If I were you, I'd think about getting my company on the right track. The one to Richmond."

RICHMOND DAY IN WASHINGTON.

A special reception in Washington, D.C., Wednesday, October 6. Hosts: Hays T. Watkins, Chairman of CSX Corporation, and Congressman Thomas J. Bliley, Jr., 3rd District—Va. Attendance by invitation only. For information, call (804) 643-3227, or write Metropolitan Economic Development Council, 201 E. Franklin Street, Richmond, Va. 23219.

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WASH/E/5

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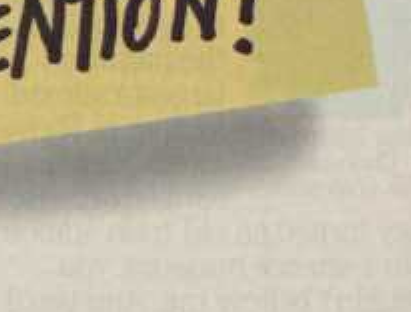

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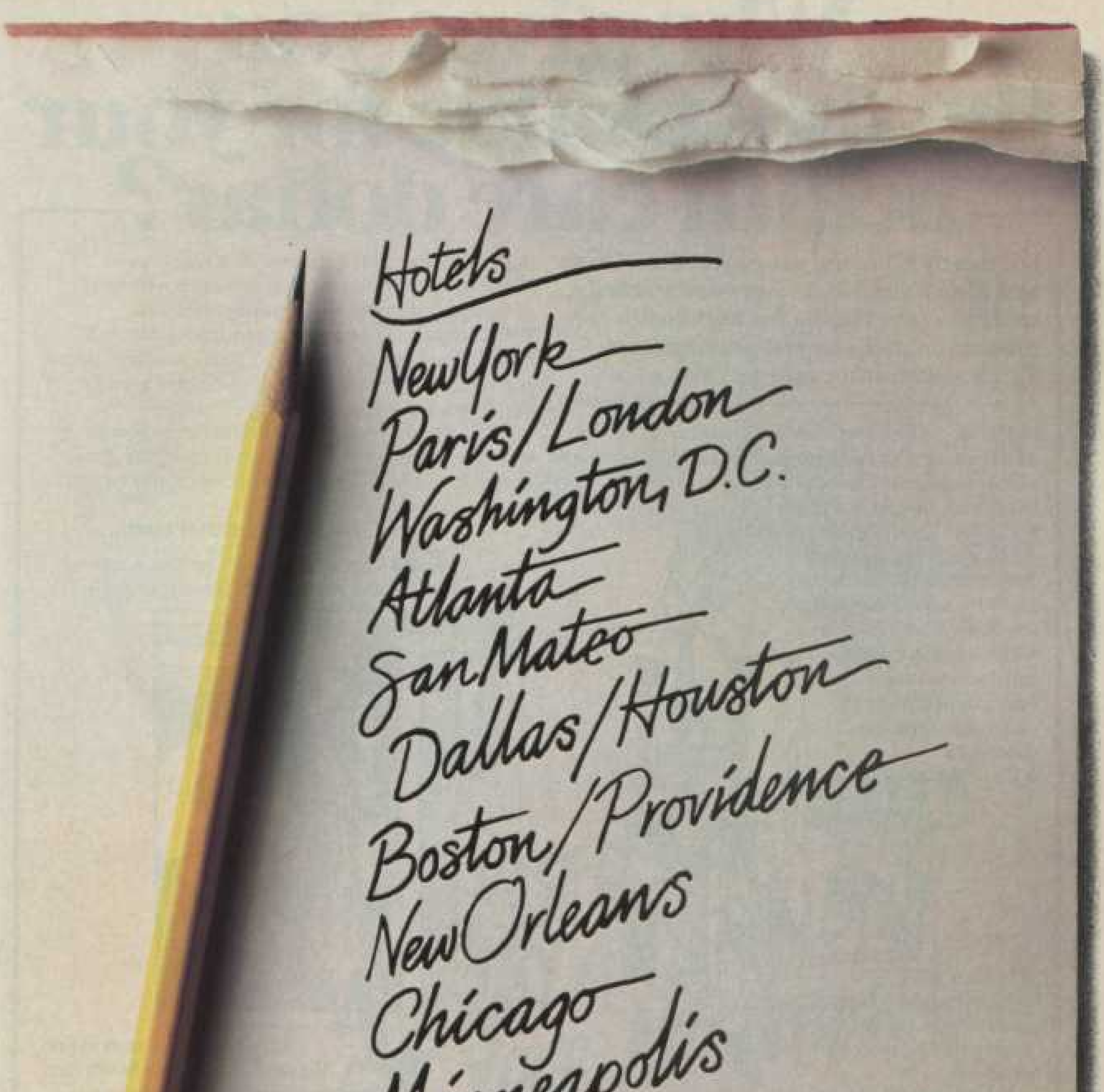
WASH/E/7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WASH/E/8

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Pentagon Eager To Merge Two Commands

A new organization that will enhance emergency military sealift will soon be set up, the Pentagon hopes. Defense Secretary Caspar Weinberger intends to consolidate the Army's Military Traffic Management Command and the Navy's Military Sealift Command into a new entity, the Military Transportation Command, to provide transportation support to all military services.

The two current commands manage the same shipments, resulting in duplication of effort and reduced responsiveness to peacetime transportation requirements and wartime deployments, says Deputy Defense Secretary Frank C. Carlucci. The consolidation is expected to save more than $10 million annually in personnel and overhead alone. Additional savings will result from eliminating duplicate information systems.

PHOTO: DOD

The Pentagon wants to bring Army and Navy transportation under one command.

Congress has been reviewing DOD's recommendation, and Weinberger has been awaiting "the right signal" from lawmakers. Senior Defense officials, testifying before Congress, have expressed frustration at Congress' slowness to give the plan its blessing. For example, Carlucci told the Senate Armed Services Committee that each day of delay reduces readiness and costs money.

Law To Thwart Peddling Of Influence Challenged

Without a system of checks and balances, would former top-level Defense officials abuse their influence to secure lucrative military business for their private-sector employers?

Some members of Congress believe the lure of defense contracts is strong enough that oversight is necessary and that the current "revolving door" disclosure law is in the public interest.

To flag potential conflicts of interest, the law requires civilian and military employes who job-hop between the Pentagon and major defense contractors to fill out a one-page form describing their current and former positions.

Now the Defense Department is proposing that Congress repeal the law, which it says burdens individuals and contractors alike. The cost of the regulation also outweighs its benefit, according to Lawrence J. Korb, assistant secretary of Defense for manpower, reserve affairs and logistics.

The proposal has so far appeared only in the House as an amendment to a military pay bill. "If it shows up in the Senate, we intend to fight it," says Sen. William Proxmire (D-Wis.). "There is no other mechanism for tracking who goes where, but with these data you can challenge potential conflict-of-interest situations."

Proxmire sponsored the disclosure regulation 12 years ago when he learned that some 2,000 former high-ranking military officers were employed by the 100 largest defense contractors. He sought to prevent them from using their Pentagon connections to influence contract decisions.

5-Year-Old Industry Suit Nears Windup

A class-action suit charging a trade association and a union with price fixing on electrical work in construction is nearing resolution. The plaintiffs say they could win as much as $100 million in treble damages. In May a three-jurist panel from the Fourth Circuit U.S. Court of Appeals in Richmond, Va., upheld a 1980 U.S. district court decision in favor of the National Constructors Association—representing large firms that design and build industrial plants—and several individual construction firms. Now the defendants—the National Electrical Contractors Association and the International Brotherhood of Electrical Workers—have asked the full court to rehear the case.

At issue is an agreement between NECA, whose members include union and nonunion contractors, and the IBEW. It says that before hiring union electricians, non-NECA contractors must agree to contribute 1 percent of that job's payroll to a NECA fund.

NECA said the fee was justifiable because the association negotiates wages for member and nonmember contractors. But Anthony J. Obadal of the Washington law firm of Zimmerman & Obadal, attorneys for the plaintiffs, argued successfully that the fee put non-NECA contractors at a disadvantage and amounted to price fixing under the Sherman Anti-Trust Act.

After the Court of Appeals panel found 2 to 1 for the independent contractors, Obadal said, "This should serve as a warning to those industry funds that would tamper with free competition."

Urban Job Malaise Is Progressive Disease

American cities that are already suffering from severe urban decline are likely to continue to do so, according to a new Brookings Institution book titled *Urban Decline and the Future of American Cities.*

One reason is the decreasing number of jobs in the major cities; another is a preference of successful residents for low-density living in the suburbs. So say Katharine Bradbury, research economist at the Federal Reserve Bank of Boston; Anthony Downs, Brookings senior fellow; and Kenneth Small, Princeton economics professor.

They explain in their study of more than 100 major cities that "job and population declines have resulted not from the failure of past urban-related policies, but from these policies' success in benefiting the majority of urban area residents," who then move out.

Once a city has begun to lose population and jobs, the book states, the city's decline "often becomes self-reinforcing because each loss creates conditions that encourage further losses."

Programs to fight urban decline lead to the exodus of successful inhabitants.

Bloated Government Also Burdens Japan

U.S. Chamber Chairman Paul Thayer (left) discusses fiscal policies with Norishige Hasegawa, vice chairman of Keidanren, the Chamber's equivalent in Japan.

A Japanese business organization's plan for confronting its government's fiscal problems has a familiar ring: "Cut into the bloated government organization and operations, both on the national and local levels, and make simple but efficient government a reality, with a view to eventually reducing the tax burden on the people. . . .

"Obviously, the initiative for the administrative and fiscal reforms must come from the government itself. It is equally important, however, that each Japanese citizen strictly guard against developing an easygoing habit of depending on the government and inviting increased public intervention in the affairs of the private sector."

Those comments were made in a broad analysis of fiscal problems facing the country issued by Keidanren, the Japanese Federation of Economic Organizations.

The report declares:

"For the past several years, the Japanese government has been experiencing heavy budget deficits, caused partly by the shortage in tax revenue resulting from the low level of economic growth and partly by rapid increases in public expenditures in various areas. . . .

"Most of the public expenditures show a common trend for self-feeding growth, unless and until steps are taken for budget reduction. This is especially true of social welfare and government subsidies for inefficient sectors . . ."

The organization notes that revenue has fallen since the sharp impact of oil price increases began hurting the economy in 1973. The government made up the loss through borrowing and tax increases.

As a result, Keidanren says, "the real tax burden . . . of Japanese corporations is the highest among the industrialized nations."

Keidanren's membership includes 830 leading corporations and 110 trade and economic organizations.

Business Booms At European Patent Office

The European Patent Office in Munich is expected to grow rapidly in the next few years. Charged with improving the international patent system, this intergovernmental organization expects to increase its staff from 1,600 to 2,000 employes so it can handle 30,000 applications per year.

An American firm that wanted to market its products abroad and needed patent protection used to face a complicated, costly process. National patent legislation applies only to the sovereign territory of each country, so firms that sought European protection had to file separate applications with each country's patent office in the national language.

That involved hiring professional representatives in each country and having translations made. Results would vary: Some countries would merely register an application with examination for patentability; others would grant patents with different degrees of protection; still others would not issue the patent at all.

Those headaches have been relieved by the European Patent Office procedure—one patent office, one application form, one patent attorney, one language, one examination procedure.

An applicant in any part of the world can obtain a European patent for any or all of the 11 EPO member states: Britain, France, West Germany, Italy, Belgium, the Netherlands, Luxembourg, Sweden, Switzerland, Austria and Liechtenstein.

An EPO patent is effective in all designated countries.

The cost of obtaining a patent varies according to the number of countries in which protection will apply; maximum figure is about $3,000.

Patent applications can be filed with the EPO's headquarters in Munich or its branch in The Hague.

Since it opened its doors, the EPO has received an ever-increasing stream of patent applications: 4,000 in 1978, 13,000 in 1979, 20,000 in 1980 and 25,000 in 1981.

The 62,000 European applications filed between 1978 and 1981 took the place of about 390,000 national applications in the 11 member countries.

Trade Barrier Relief For Services Sector

The services industry, which has faced growing obstacles to international trade, may get some relief in the form of legislation supporting the Trade in Services Act of 1982.

Bills that would treat accounting, education, advertising, insurance, financial services, and other tourism services similarly to goods are now before both houses of Congress. The U.S. Chamber of Commerce has testified in support of legislation that would give the services industry the same status that the exports of the manufacturing and agricultural industries have.

Recent hearings emphasized the need for legislation to help improve the country's balance of payments and to ease growing strains between the United States and its trading partners over the proliferation of nontariff barriers, which prevent American firms from competing on an equal basis in the international marketplace.

An estimated 70 percent of the U.S. work force is now employed in the services sector, which accounted for a trade surplus of almost $40 billion last year. But because the nation has an even larger trade deficit in goods, increased barriers to services trade could cause the overall trade deficit to worsen. Obstacles to trade include personnel restrictions, discriminatory foreign exchange restrictions, tariff and customs procedures, and denial of entry into domestic markets. □


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A Housing Era Ends

Harsh realities are forcing millions to settle for less than the American dream home.

By Del Marth

PHOTO: CHARLES PEX—UNIPHOTO

PHOTO: MICHAEL J. PETTYPOOL—UNIPHOTO

SLOWLY and sometimes reluctantly, Americans are weaning themselves from the conviction that bigger is better.

They have little choice. Their lifestyle is so puckered by today's sour economy that bigness is already part of nostalgia.

Gone is the love affair with fin-fendered automobiles that gulped cheap gas. Penny-pinching families now squeeze into nondescript compacts built around impotent four-cylinder engines.

Next to go, say the pundits, will be that sacrosanct American dream—the one-family home sitting on its own lot. Junior may have grown up in a ranch style or split-level, but he is likely to live his adult years in more crowded surroundings.

Leaders in the housing industry describe tomorrow's address as a cluster house, a townhouse, an attached house, a tandem house, a modular house, a patio house, a quadruplex, a sexplex or an octoplex.

Besides sharing a wall or two, all have two other features in common: Living space is generally under 1,000 square feet, sometimes no more than 600, and they cost dearly.

For the 16 million new households forming in the 1980s, the prospect of acquiring the American dream house is indeed diminishing.

And the economic prospect is downright depressing for builders and architects, lenders and suppliers. Those who survive today's economic trough will surface to a "housing industry that is going to look a lot different than it did several years ago," says George Sternlieb, director of the Center for Urban Policy Research at Rutgers University.

An endangered species will be the small builder. Many already are extinct, killed off by high interest rates and swollen land prices, rising unemployment and shrinking consumer buying power. Between November and February, the National Association of Home Builders lost 9,000 members, largely small building firms.

The single-family, detached house goes tongue-and-groove with the small builder, so experts see one vanishing with the other. At last report, 32 percent of the housing market was in the hands of 359 builders, a percentage that is certain to soar.

"In a period of difficult money, only the company with extensive capital can withstand the vagaries of the economy," explains Robert Strudler, senior vice president at U.S. Home Corporation, the nation's largest home builder.

And only such a company can afford to develop land for housing on a scale to make it profitable. Strudler talks about two to three years' lead time to develop a community and some $6 million to $10 million to level the terrain, lay pipes and otherwise prepare the ground.

Sternlieb agrees: "Between the cost of infrastructure and the front-end costs that communities are asking before you can build anything—well, this has become a very different business."

Just as different is the source of the housing demand. In this decade a whopping 41 million Americans will turn 30 years old, and most will be seeking a first-time home.

The problem: They have precious few dollars. That fact suggests the solution

Cluster homes, which housing experts call tomorrow's affordable dwellings, challenge architects to provide attractive and spacious-seeming comfort within an average of 1,000 square feet. Like their cousin, the high-rise condominium (top), attached homes shave costs with shared walls and vertical expansion on small lots.

to Louis Thompson, senior staff vice president at NAHB:

"There are four basic ingredients in a home—land and its development costs, labor costs, materials costs and financing costs. The only one likely to decrease is financing. So the only way to produce an affordable house is to build it smaller."

BLUEPRINT READERS saw the change developing in the late 1970s. Median square footage of homes built in 1978 was 1,655. Last year the figure was down to 1,550. Industry leaders predict the figure will squeeze down to under 1,200 by 1985.

The trend is toward fewer bedrooms: In 1978 only 12 percent of homes were built with fewer than three bedrooms. Last year the figure was 21 percent.

In 1978 one or more fireplaces warmed 64 percent of the new homes. That figure cooled to 55 percent last year.

Even carports and garages are becoming too costly—18 percent of homes built in 1978 had neither, and last year 25 percent went without.

While the house has been shrinking, the price has not. In 1978 the median price of a new house was $55,700, within the affordable range of 34.4 percent of American families, according to NAHB. In June this year the median price hit a record $72,600. By one measuring stick—that a family pay no more than 30 percent of its after-tax income each month on a mortgage—all but 18.3 percent of families in the marketplace were too poor to buy a house in 1981.

For architect Arthur C. Danielian, it's both a tragedy and a challenge: "My business is hurting tremendously . . . but I think the solutions are very exciting."

Danielian, president of Danielian Associates, Newport Beach, Calif., a leading architectural firm designing small attached houses, believes clusters of such houses "can provide an outstanding environment for couples."

The demand for his housing is coming from "a husband and wife who work, who want to be close to the office, who are tired when they get home, who don't want a yard to maintain and who put a lot of emphasis on themselves."

Danielian is not sure the demand for smaller houses has resulted from the present housing crisis. He says:

"People are getting married later in life, in their 30s, and are having fewer children. I think the smaller families are a result of the attitudes born out of the 1960s and 1970s. That's when this new type of buyer first came on the scene.

"The high interest rates merely compounded the problem and weren't the genesis of it," says Danielian. "The rates and resultant tight money have only emphasized the small house demand."

But even two childless adults, both working, can feel confined in affordable living space, and that is the challenge of future housing. Architect Barry Berkus contends the secret is to "design something that is not merely a container."

The Berkus Group, with offices in California and Washington, D.C., has created 250,000 homes in 2,000 housing developments. Units start at 650 square feet and $40,000.

To enable buyers to live big in a small space, Berkus vaults ceilings, installs skylights and expansive windows to bring in the outdoors, eliminates interior walls when possible and delineates rooms by raising or lowering the floor.

Couples or individuals not kin to each other double up and split costs in a Berkus tandem house. Privacy is provided by separate bedrooms and baths, but tenants share a kitchen and living room.

The difficulty of finding affordable housing for one's self or family precludes the recent practice of buying a second home as a speculative investment, a property to turn over for a profit after a few years. Many housing leaders say the change is for the better. They agree with Danielian that "buying homes for investment rather than to live in was a sign of an unhealthy economy."

WHAT CONSTRUCTION industry leaders do not agree on is the Reagan administration's attitude and actions toward their industry, in its worst slump since World War II and reeling under 20.3 percent unemployment. A sympathetic Congress passed a $3 billion mortgage subsidy plan in June.

Its supporters predicted the bill would spur construction of 200,000 new homes and create 500,000 new jobs. President Reagan saw otherwise.

In vetoing the legislation, the Presi-

dent said the subsidy would set a bad precedent, that it would aggravate the interest rate situation by adding to the federal deficit.

"We cannot justify singling out one industry for special relief," the President said. In other words, the subsidy was a bailout.

That view still piques Thompson at NAHB: "It was a job bill, not a bailout of the industry. The legislation would have put a lot of people back to work ... and the government would have gotten every penny back in taxes."

As for the charge that the bill would subsidize the industry, Strudler at U.S. Home says "the housing industry has always been subsidized ... through tax rates, through savings and loan associations."

S&Ls were established in the 1800s to provide low-interest funds for distressed housing markets.

"Agriculture is subsidized, so is defense," says Strudler. "The government cannot sit back and say every market has to compete on its own. The American homebuyer cannot compete for credit with Exxon or Boeing."

BAILOUT, job bill, subsidy—whatever the tag, industry leaders unanimously say the effect would be short-term. Like today's kaleidoscopic array of mortgages to lure Americans into homes, the aid would be little more than a Band-Aid. Says architect Danielian:

"I don't know of any legislation or government action that can help the housing industry in the long run. I think Reagan is doing the right thing in letting water seek its own level."

Unfortunately, that watermark in the housing industry seems destined to peak over the heads of most Americans, young and old, perhaps into the next century.

The tide of post-World War II babies now reaching adulthood and seeking shelter will barely ebb before another demographic wave crests—the graying population. Like the young adults of the 1980s, the older adults of the 1990s will want quality housing and low maintenance in a small living space, say industry leaders.

Many will migrate to the South and Southwest, as they are already doing, under the illusion that a man's castle costs less where the seasons are fewer. But it is land costs, not construction costs, that set the price of housing nowadays, and the price of individual lots and acreage is on the rise everywhere.

"House construction costs don't vary more than 5 percent around the country," says Danielian. But land costs do. The same small house that goes for $125,000 in California may carry a price tag of $70,000 in Nebraska.

Then there is the problem of water. "There is no shortage of land, even though land is expensive today," says NAHB's Thompson, "but what I see as more critical to the industry is the diminishing supply of water, not only for housing but also for the industries that accompany expansion of housing."

AND IF THE WATER supply is worrisome—along with land costs, interest rates, prices of materials, decreasing American buying power and all the rest—so is the horde of housing workers and suppliers jumping a sinking ship.

"Firms, builders, manufacturers—many are going out of existence," says Peter B. Harkins, staff director of the Senate Housing and Urban Affairs Subcommittee, "leaving us in a situation where, when the economy does revert to health and the pent-up demand is unleashed, we will have no capacity to satisfy it."

One side effect of the shakeout would be an increase in manufactured or modular housing.

"We are losing skilled people in the industry," says Strudler, "so that if we have a housing boom, the only way it could be satisfied is to use unskilled labor. The result could be more prevalent manufactured housing, where unskilled workers can be controlled in a factory situation."

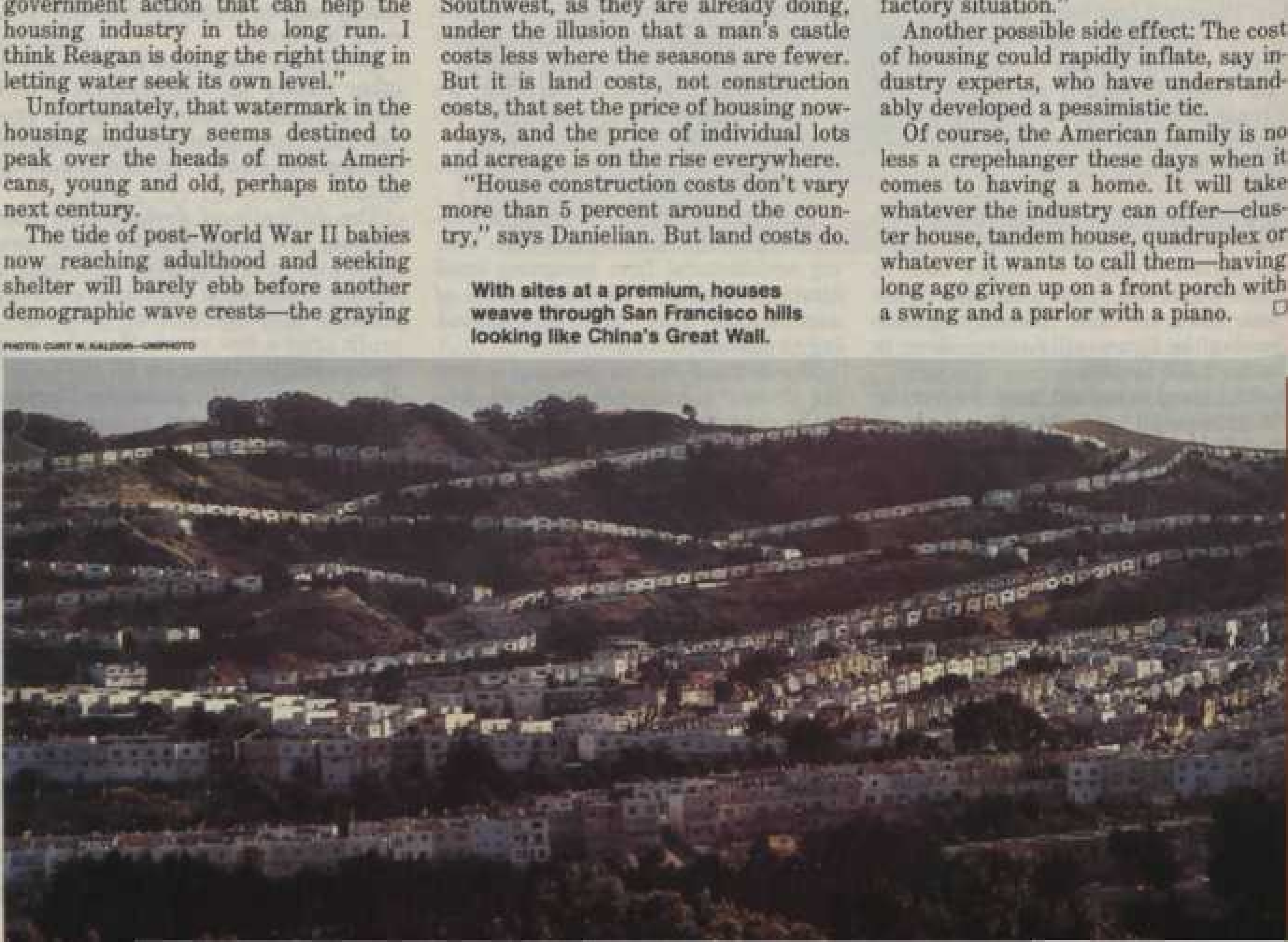
Another possible side effect: The cost of housing could rapidly inflate, say industry experts, who have understandably developed a pessimistic tic.

Of course, the American family is no less a crepehanger these days when it comes to having a home. It will take whatever the industry can offer—cluster house, tandem house, quadruplex or whatever it wants to call them—having long ago given up on a front porch with a swing and a parlor with a piano. □

PHOTO: WAYNE PARTLOW

Diminishing supplies of water worry housing forecasters, such as Louis Thompson at NAHB.

PHOTO: CURT W. KALDOR—UNIPHOTO



With sites at a premium, houses weave through San Francisco hills looking like China's Great Wall.

Weighing A Balanced Budget Amendment

Opponents call it heavy-handed; proponents deny that and insist a constitutional change is needed.

By Barry Crickmer

FOR MANY years now, federal deficits have been as common as campaign pledges to balance the budget.

The rhetoric of the political stump stood little chance once it came into conflict with the political reality of pressures for higher spending.

But chances that limits on federal spending and taxation will actually be imposed in the most forceful manner possible—as an amendment to the U.S. Constitution—are higher this year than ever.

President Reagan and key congressional supporters of the amendment held a rally on the Capitol steps in July.

This development results from the confluence of three pressures: election-year politics, the specter of record budget deficits and a widespread belief that deficit spending endangers the economy.

The customary path for a constitutional amendment is for at least two thirds of the House and Senate to concur in the language, then submit it to the states. Following ratification by three quarters of the state legislatures (38), the amendment is adopted.

Since the Senate last month passed its version of a balanced budget amendment, 69 to 31, attention now focuses on the House. Speaker Thomas P. "Tip" O'Neill, Jr. (D-Mass.) has predicted the amendment will pass and says he will do nothing to hinder a vote on it, even though he does not favor it himself. But other members of the House leadership have been actively hostile. An earlier version of the amendment has been bottled up in the House Judiciary Committee. Chairman Peter W. Rodino, Jr. (D-N.J.) calls it "political gimmickry."

House sponsor Barber B. Conable, Jr. (R-N.Y.) has been circulating a discharge petition to bring the amendment to the floor for a vote. Majority Leader Jim Wright (D-Tex.) has been urging colleagues not to sign the petition.

Given the hostility of the Democratic leadership, the complications introduced by Senate amendments and the rush to adjourn before the election, House passage in this session of Congress remains very much in doubt.

SUPPORTERS of the amendment believe ratification would quickly follow congressional action, since 31 states have already called for a constitutional convention to consider such an amendment. They estimate that it could be in effect for the fiscal 1986 budget.

If Congress does not act in this session, there is a possibility that another three states may join in the call for a constitutional convention. Two-thirds of the states—34—may call one.

Even backers of the budget amendment would prefer congressional action to a convention. Formidable legal and procedural questions would be raised, since the only precedent is the gathering that drafted the Constitution in 1787. But the threat of a convention can be used to motivate the House. And in turn, congressional inaction can be used to motivate a state call, says Lewis K. Uhler, president of the 600,000-member National Tax-Limitation Committee, which has played a principal role in drafting and lobbying for the amendment.

The other major organization behind the amendment, the National Taxpayers Union, concurs. "We will take it back to the states if necessary," says Len Rippa, director of the organization's congressional affairs. "If we get one or two more, that would really put the pressure on the House."

President Reagan hailed Senate passage and called on House leaders to "heed the will of the people." Reagan, credited by some with originating the drive to limit California's spending when he was governor, joined the national movement late in the game. He staged a pro-amendment rally on the Capitol steps July 19 and appointed a Balanced Budget Leadership Group. It is headed by Donald M. Kendall, chairman of PepsiCo and chairman of the executive committee of the U.S. Chamber of Commerce.

Long-time supporters of the amendment value the President's persuasive powers—which helped secure a favorable Senate vote—but also fear his participation may give a partisan cast to what began as a bipartisan effort. "To get the required two-thirds approval in both houses, the amendment must be a sincere bipartisan effort," warns Uhler.

The amendment under consideration represents an alliance of two powerful grass-roots movements, the budget balancers and the tax-and-spending limit-

ers. These are its major requirements:

• Congress must adopt a balanced budget before the beginning of each fiscal year. Outlays may exceed receipts only if both houses of Congress approve by three-fifths majorities.

• The upper limit on the national debt may be raised only by three-fifths vote of both houses.

• Tax hikes could not exceed economic growth. A larger increase could be approved by majority vote of both houses. (All majorities specified above are calculated on the full membership of each house, a more difficult requirement than a simple majority of those present and voting.)

THOSE REQUIREMENTS could all be waived by a simple majority vote of both houses for any year in which a declaration of war is in effect. This provision led Sen. Daniel Patrick Moynihan (D-N.Y.) to suggest facetiously that arrangements might be worked out for occasional declarations of war on some cooperative foreign country, as needed to help implement U.S. economic policy.

Moynihan's mirth raises the most important pragmatic question about the amendment: Is it too strong or not strong enough?

Those who say it is too strong—largely liberal and labor groups—assume in their analyses that adoption of the amendment would produce an immediate balanced budget. They then calculate the consequences of that and find them damaging.

A projection by Wharton Econometrics, using conditions specified by an aide to Moynihan, concludes that if the fiscal 1982 budget had been balanced, unemployment would now be 13.6 percent rather than 9.5. The American Federation of State, County and Municipal Employees used a Data Resources, Inc., economic model to project 1987 conditions if the amendment were adopted in 1985. Result? "Writing rigid restraints on federal fiscal policy into the U.S. Constitution would throw the economy into a tailspin, sharply boosting unemployment and lowering America's real GNP," according to AFSCME.

Supporters of the amendment doubt that 40 percent of each house would tolerate such conditions merely for the sake of a balanced budget if in fact the quest for balance were causing the trouble. And they also doubt that such a quest could cause problems. "Where do they think that money goes if the federal government doesn't take it?" asks Uhler. "It doesn't go into a mattress. It's retained in the pockets of the people who produced it, who are more likely to turn it into something beneficial."

Rep. Barber B. Conable, Jr. (R-N.Y.) fought to spring the amendment from the House Judiciary Committee.

Judiciary Committee Chairman Peter W. Rodino, Jr. (D-N.J.) has been the most effective House foe of the constitutional route to federal budget discipline.

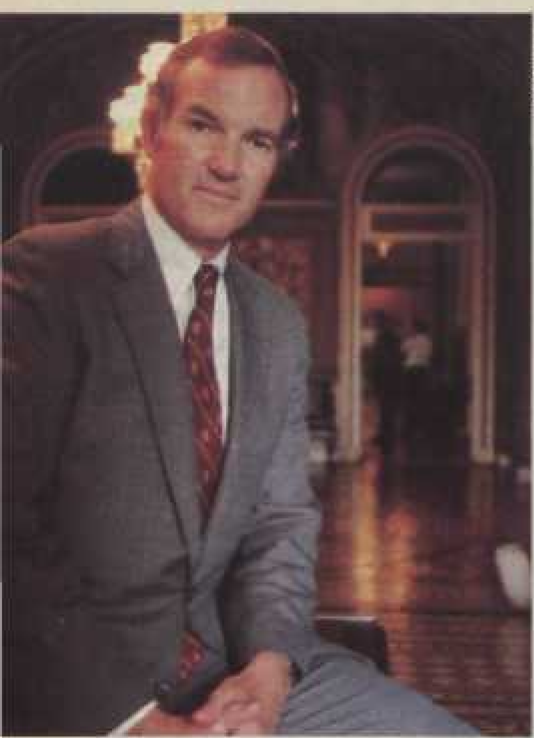
Further, the amendment would not necessarily result in a balanced budget, even in the absence of a vote to the contrary. Actual outlays could not exceed budgeted outlays, but there is no guarantee that actual receipts will equal budgeted receipts, and nothing prohibits a deficit if they fall short (unless the deficit would force a hike in the debt ceiling).

This feature is cited by both proponents and opponents of the amendment. Proponents say that a lag in the calculation of national income will allow some countercyclical fiscal policy: Extra receipts during a boom would permit higher outlays during a subsequent recession, and lower receipts during a recession would exert restraint on the budget during a subsequent boom. Opponents view this touted flexibility as an invitation to Congress to produce inflated estimates of future receipts to permit inflated outlays.

The amendment's drafters walked a tightrope between the twin dangers of excessive rigidity and excessive flexibility. "Nobody would vote for a constitutional amendment that required a balanced budget under every conceivable circumstance," explains Conable. On the other hand, there obviously had to be a limit on exceptions. Says Uhler: "There was tremendous pressure within the original drafting group to exempt national defense until they recalled that back in the 1950s we had the National Defense Education Act and the National System of Interstate and Defense Highways." Consequently, friends of the amendment have beaten off attempts to exempt Social Security and to add the phrase "or national emergency" to the wartime waiver.

Even so, many opponents charge that loopholes in the amendment are big enough to drive a Congress through. The three most serious questions:

• *Are the required majorities large*


Citizen-lobbyist Lewis K. Uhler has waged a long campaign for spending limits.

enough to discipline Congress? Only experience could provide the definitive answer. However, supporters point out that making deficit spending difficult is only one of the amendment's objectives. A more important aim is to make those who vote for such spending directly accountable for the consequences. "Such accountability is largely absent now," explains Senate sponsor Orrin G. Hatch (R-Utah), "because members of Congress do not have to vote to raise revenues in order to approve increased spending."

Thus, in the words of a Senate Judiciary Committee report, the amendment is designed to establish "a focus upon two or three critical votes each year relating to aggregate levels of taxation and deficits, in place of the present diffuse focus upon hundreds of individual spending measures."

• *Would the amendment control off-budget spending?* (Such outlays belong in the budget under current budget accounting concepts but have been excluded from budget totals.)

Yes, say supporters; the amendment governs "all outlays."

Not necessarily, says conservative critic Rudolph G. Penner, director of fiscal policy studies at the American Enterprise Institute. It may control some off-budget outlays, he says, but "it in no way controls what I call off-off-budget outlays. It does not control government-sponsored corporations, for example."

Penner cites New York State, which, he says, managed to evade similar spending limits by establishing independent agencies.

PROPONENTS ADMIT that federal loan guarantees and federally chartered corporations might be able to escape the amendment's reach as long as they require no federal funds. But any infusion of money—to honor a loan guarantee, for example—would clearly be covered.

Perhaps a more significant variation of this question is whether the government would seek to load the cost of social programs on business. Employers might be forced to pay the full cost of health insurance, for example. Uhler acknowledges the possibility. "These things would simply have to be fought one at a time, just as they are now," he says.

• *Could the requirements be enforced?* This is probably the most troublesome question. Some opponents fear Congress might simply ignore the dictates of the amendment, thereby damaging the authority of the entire Constitution.

The Judiciary Committee report says, "While there may be no sanctions . . . for the violation of any particular provision, it must first be recognized that Congress and the President are expected to act in accordance with the Constitution."

Congress is charged to write the necessary implementing legislation, and supporters assume that enforcement mechanisms would be developed in the process.

The President is given no additional powers to impound appropriated funds, but he could simply stop writing checks when the limit on outlays is reached—which happens now when the legal debt ceiling is hit.

"It's like the budget resolution," says Senate Finance Committee Chairman Robert Dole (R-Kans.). "We don't go to jail if we don't meet our targets. But even though there's no 'enforcement,' it's there. When you are mandated by your colleagues to do something, you are going to try to do it."

The Judiciary Committee report identifies the ultimate sanction: "To the extent that the amendment succeeds in creating a more useful flow of political information to the electorate . . . it will be enforced most effectively at the polls every other November."

Text of the Senate's Amendment

Section 1
Prior to each fiscal year, the Congress shall adopt a statement of receipts and outlays for that year in which total outlays are no greater than total receipts. The Congress may amend such statement provided revised outlays are no greater than revised receipts. Whenever three-fifths of the whole number of both Houses shall deem it necessary, Congress in such statement may provide for a specific excess of outlays over receipts by a vote directed solely to that subject. The Congress and the President shall pursuant to legislation or through exercise of their powers under the first and second articles ensure that actual outlays do not exceed the outlays set forth in such statement.

Section 2
Total receipts for any fiscal year set forth in the statement adopted pursuant to this article shall not increase by a rate greater than the rate of increase in national income in the year or years ending not less than six months nor more than 12 months before such fiscal year, unless a majority of the whole number of both Houses of Congress shall have passed a bill directed solely to approving specific additional receipts and such bill has become law.

Section 3
The Congress may waive the provisions of this article for any fiscal year in which a declaration of war is in effect.

Section 4
Total receipts shall include all receipts of the United States except those derived from borrowing and total outlays shall include all outlays of the United States except those for repayment of debt principal.

Section 5
The Congress shall enforce and implement this article by appropriate legislation.

Section 6
On and after the date this article takes effect, the amount of federal public debt limit as of such date shall become permanent and there shall be no increase in such amount unless three-fifths of the whole number of both Houses of Congress shall have passed a bill approving such increase and such bill has become law.

Section 7
This article shall take effect for the second fiscal year beginning after its ratification.

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GENERAL ELECTRIC

Nuclear Comeback?

There's light at the end of the tunnel now for a major source of power for America's electric utilities.

By Tony Velocci

LITTLE DID Washington Public Power Supply System executives know when they started construction of five nuclear power plants in the mid-1970s that the multibillion-dollar project would almost end in financial disaster.

Construction delays, turmoil in the bond market and cost overruns pushed the projected price tag from $4.1 billion to more than $23 billion. Then an unexpected, dramatic drop in electricity demand in the Northwest called into question the basis for the project. Finally, strapped for cash, the utility announced that it would halt work on two of the five plants and write off the $2.25 billion already spent. Construction of a third plant has since been deferred.

To a large extent, the experiences of Washington Public Power Supply mirror the misfortunes of many other utilities with nuclear construction programs, leading some people to suggest that the nuclear industry has no future in the United States.

However, the death knells are unwarranted. Certainly, the industry's for-

Permanent disposal of America's atomic garbage is a major hurdle for the nuclear industry. All storage is now temporary.

tunes are now improving. For example:

- Legislation that would establish a national program for storage of radioactive wastes is moving through Congress, and a bill could be ready for President Reagan's signature by next month.
- The Department of Energy and the Nuclear Regulatory Commission will soon submit a plan to Congress to reform the regulatory process governing the operation, construction and licensing of nuclear power plants.
- Congressional support for American nuclear power is substantial. (See the box on page 38.)
- American manufacturers of atomic power plants are finding that foreign orders, plus a healthy domestic service

business, can sustain them despite the lack of construction projects at home.

"This is the year of nuclear power," says Energy Secretary James B. Edwards. The industry's optimism is more subdued, although at General Electric, one of four domestic builders of nuclear plants, there is talk of a resurgence of nuclear projects in the United States.

But don't be misled. The process of getting the nuclear industry back on track will be gradual—measured in years, not months. Since 1973 about 100 nuclear projects have been suspended or terminated; 12 such casualties occurred the first half of this year alone, and more are likely.

Moreover, say industry executives, there is no guarantee that attempts to formulate a national nuclear policy won't fall through at the 11th hour. That has happened before.

Nuclear power is extremely capital-intensive—the cost of a new plant runs to more than $2 billion—and investor confidence in nuclear projects is all but nonexistent.

Opinion polls have shown that the public generally favors nuclear power, but that support is fragile. Plant mishaps can easily shatter it; the Three Mile Island incident in March, 1979, sent nuclear power's ratings in the polls plummeting, though they eventually recovered. And public opinion influences regulatory decisions that can ultimately delay or kill projects.

The nuclear weapons freeze movement appears to be clouding some people's understanding of commercial nuclear power. It is physically impossible, for example, for a nuclear plant to explode like an atomic or hydrogen bomb, but some people remain ignorant of this. "The media are doing virtually nothing to draw clear distinctions between electricity and weapons," says L. Manning Muntzsing, president of the American Nuclear Society, a professional group.

Adopting a nuclear waste disposal policy is the most effective way Congress could ensure the continued growth of nuclear power. The Senate has already approved a plan for permanently storing radioactive waste that has accumulated over the past 35 years. (Ninety percent of it is the military's.) The House is working on similar legislation.

The Senate version would require the Secretary of Energy to select the first permanent geological repository by 1986. Prime candidates are salt formations in Utah and Gulf Coast states and rock formations in Nevada and Washington. States where repositories might be built would have only a limited say in site selection.

Other key provisions in the Senate bill provide for away-from-reactor storage sites, monitored retrievable storage facilities and a method of assessing industry for the costs. The first commercial-scale repository would begin operation by the mid-1990s.

Irwin Remson, a Stanford University professor who is a member of a scientific team examining repository sites for the government, says a reasonable specification might be that no radioactivity be allowed to reach the open air for 10,000 years. Says he: "These vaults will be the most overengineered installations ever built."

Nuclear power supplies a third of the electricity needs of New England. This power plant is being built in Maine.

Beyond the obvious need to dispose of the nation's radioactive garbage, a nuclear waste policy is important for several reasons. First, some nuclear plants will soon run out of temporary, on-site storage space for their wastes. Second, the private sector would interpret a policy as a federal commitment to nuclear power. Third, it would help the nuclear industry counter state laws, such as California's, that prohibit new plants until Washington decides what to do with the waste.

LICENSING REFORM is almost as crucial as waste policy. Both the Department of Energy and the Nuclear Regulatory Commission are poised to send proposed bills to Congress but are waiting for the green light from the White House. "Nobody wants to divert attention from getting a waste bill as soon as possible," says W. Kenneth Davis, deputy secretary of DOE.

The DOE plan addresses existing as well as future nuclear power plants, and it has strong industry backing. A key provision: It would require the full Nuclear Regulatory Commission to review and approve all requirements for modifying existing or planned facilities. Such matters now are routinely handled by the NRC staff.

One-step licensing for nuclear plant construction and operation would become a reality. So would preapproved, standardized plant designs. Now each new plant must be examined as though it were unique, even if an identical facility is in use elsewhere. For an analogy, imagine the Federal Aviation Administration insisting on examining the blueprint of every 727 jet that comes off the assembly line instead of simply signing off on the prototype.

"Standardized designs are mandatory if we are ever going to get new nuclear projects in this country," says A.P. Bray, vice president and general manager of General Electric's nuclear power systems division.

A Reagan-appointed task force will report to

the President by September 30 on what incentives the federal government could provide to advance commercial reprocessing of spent nuclear fuel. Reprocessing recovers large amounts of usable plutonium and uranium. DOE may simply guarantee to buy all of the plutonium, a weapons ingredient, thus assuring reprocessors a market.

INDUSTRY SOURCES say the long-range viability of nuclear power depends on reprocessing because the supply of uranium, used to fuel conventional nuclear reactors, is limited. Also, reprocessing will be necessary to operate breeder reactors, which will be the next stage in nuclear technology.

Perhaps the most serious hurdle that the nuclear industry has to clear is the deplorable financial state of the utilities themselves. With the market price of most utility stocks at less than 75 percent of book value, raising capital is tough. Utilities' future ability to increase generating capacity of any kind will surely be strained.

Nuclear power currently supplies about 12 percent of the country's electricity needs. This is the equivalent of about 1.3 million barrels of oil a day. By the end of this year the percentage is expected to rise to 13. Nuclear power will thus displace oil as the third largest source of electricity in the United States, after coal and natural gas.

America has more nuclear power plants under construction—75—than any other nation, including France, which has the fastest-growing nuclear program outside this country. If all 75 are put into operation on schedule, nuclear power will supply more than 20 percent of domestic electricity-generating capacity in 1990. Boasts Carl Walske, president of the Atomic Industrial Forum, a trade association: "Reports of the death of nuclear power have been greatly exaggerated."

But no new U.S. orders for nuclear power plants are expected for at least several years, and some industry sources say there may be no more this decade. Meanwhile, manufacturers are keeping busy filling foreign orders, clearing up a domestic backlog and servicing existing units.

The Atomic Industrial Forum expects the aftermarket—plant upgrading, fuel reloading and the like—to provide $40 billion to $60 billion in business until 1990 and perhaps $10 billion annually thereafter. "It's a sad way to stay alive," concedes Bray at GE.

At Westinghouse, the largest domestic manufacturer of nuclear plants, 70 percent of the nuclear business is now service-oriented. Division Vice President James Moore estimates that the supplier base has shrunk 25 percent. The company is pursuing defense-related business that can use sophisticated machinery and skilled labor that would otherwise be producing new power plants. "Our approach is to keep our business alive for the long pull," says Moore.

What is the long-range outlook for electricity demand? Many authorities believe that it will probably increase enough by the early 1990s to require more generating capacity.

During the 1960s and early 1970s, annual growth was about 7 percent. It dropped to about 3.5 percent after the 1973-74 oil embargo. Demand for electricity has been virtually flat since 1980 but is expected to resume a 3.5 percent annual growth after the recession.

Even at that rate, predicts Hagler, Bailly & Company, a Washington-based consulting firm, utilities will need the equivalent of up to 150 nuclear power plants by 1992 to avoid power shortages. The challenge, they say, will be to meet future demand while replacing obsolete power plants.

Utilities are understandably wary:

PHOTO BLACK STAR

An end to utilities' cash shortage would speed construction on nuclear projects.

Support on the Hill

A recent survey of members of Congress shows support for expanding the use of nuclear power in this country.

However, the poll, conducted by Washington-based Columbia Institute for Political Research, also indicates that since last fall there has been (1) a sharp drop in members who favor new orders and (2) an increase in those who favor licensing only plants that are under construction.

Sixty-two percent of the congressmen surveyed believe waste is the chief obstacle to the continued or expanded use of nuclear power. Other potential obstructions were ranked in this order: construction costs, safety, and delays in the construction and licensing process.

More than half of those questioned believe that the time currently required for the siting, licensing and construction of nuclear power plants can be shortened without sacrificing safety. A large majority believe that the commercial nuclear plants now operating in the United States are safe.

misjudging future demand is what helped get them in their present financial predicament. In the 1960s and early 1970s utilities planned for higher growth by ordering a sizable number of nuclear units. But after the 1973-74 embargo, when energy consumption declined, utilities realized they would require far less generating capacity.

Meanwhile, opponents of nuclear power had become increasingly skilled at using the courts to delay projects. Utilities say that regulators consistently set electricity rates too low, preventing them from earning an adequate return on investment. Zigzagging federal energy and regulatory policies undermined investor confidence in multiyear projects. Result: The time for bringing a nuclear plant on line was stretched by years, causing the price tag to skyrocket. Inflation and carrying charges now comprise more than half the cost of a new plant.

IN RECENT YEARS utilities, strapped for cash, have slowed construction of many projects already under way. Utilities don't begin earning money on their enormous investment until a new plant goes into operation.

"The future of nuclear power will be decided by what constitutes a prudent business decision for the board of directors of a utility," says Leonard S. Hyman, a vice president at Merrill Lynch, Pierce, Fenner & Smith. "In the final analysis, it is academic whether nuclear power is a blessing or a peril if those who would build the plants choose not to do so."

The nuclear industry has done much to eliminate peril to human beings. After Three Mile Island, major reforms, such as upgrading training of reactor operators, were adopted. But peril to finances is something else.

Industry sources say the financial risks of new nuclear projects will have to diminish considerably before there will be any new domestic orders. Needed, they say, are clear signs that the nation wants a nuclear power program and that once companies reorder new plants, they will not be stymied by bureaucratic wheel spinning.

"We can cope with many things in developing nuclear power, but uncertainty is not one of them," says John Kearney, a senior vice president at Edison Electric Institute, which represents investor-owned utilities.

A nuclear waste policy and sweeping licensing reforms would not guarantee a rosy future for American nuclear power. They would, however, remove much of the uncertainty that has stunted its growth and even threatened its existence. And they would lay the groundwork for what could eventually become a resurgence of the nuclear power industry. □

THE PRESIDENT'S "Junkyard

PHOTOS: SUE KLEMENS

Auditing Social Security payments, IG Richard P. Kusserow found $60 million going to deceased beneficiaries.

The General Services Administration's IG, Joseph A. Sickon, is trying to cut waste in federal purchases of office supplies.

MOST CANDIDATES for national office promise to crack down on the waste of taxpayers' money. But unlike many who have gone on to win election, Ronald Reagan can point to hard evidence that he has kept that promise.

Much of the credit goes to his 18 inspectors general in principal federal agencies. The President ordered them to be "as mean as junkyard dogs" in sniffing out waste and fraud.

In the latest report of the President's Council on Integrity and Efficiency, whose members include the inspectors general, the IGs presented to Congress their trophies for the six months ending March 31, 1982:

- Over $5.8 billion in direct savings and improved use of funds was reported, an increase of approximately $400 million over the total for the previous six-month period.
- $39.8 million in recoveries, settlements, fines

Dogs"

The revitalized inspectors general program is taking a bite out of federal waste and fraud.

and penalties was assessed by the courts.

- 13,267 investigations were opened, and 12,573 cases were closed.
- 2,876 cases were referred to prosecutors.
- 925 indictments were brought, and 1,050 convictions were obtained.

"Both the measurable and the nonquantifiable results of the Inspector General effort demonstrate the effectiveness of the program in this administration," the council said.

Congress set up the inspectors general program in 1978 to audit and investigate each agency's programs and operations. Legislators wanted independent, objective units that would provide leadership and coordination, recommend economical and effective policies, detect and prevent waste and fraud, and keep Congress informed.

THE INSPECTORS GENERAL come from inside and outside the federal establishment. About half were professional auditors. The others have experience in investigations. They serve at the pleasure of the President and have been confirmed by the Senate.

Inspectors general are assigned to the Departments of Agriculture, Commerce, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Labor, State, Transportation and Treasury.

IGs also keep watch at the Community Services, General Services, National Aeronautics and Space, Small Business and Veterans Administrations, and at the Environmental Protection Agency and the Agency for International Development.

The Department of Defense has its own IG for intelligence matters and an IG for each of the services. To oversee the entire department, Defense Secretary Caspar Weinberger established the Office for Review and Oversight and appointed as head Joseph Sherick, who performs some of the functions of an IG. Because of potential security problems, the Defense auditors report to Weinberger.

Bills to establish an independent IG for Defense are pending in both the House and the Senate. The House bill proposes independent IGs for Defense and Justice. The Senate version deals only with Defense and would give the Secretary of Defense the right to review investigations.

Supporting staff for the current 18 independent IGs consists of about 5,600 auditors, accountants and investigators scattered throughout the country.

The program's annual budget is $300 million, but with savings well into the billions, the program seems to be running efficiently. Joseph R. Wright, Jr., who as deputy director of the Office of Management and Budget is also head of the President's Council on Integrity and Efficiency, is satisfied.

"The inspectors general program is one of the best-administered programs that any administration has put into effect in a long time," says Wright. He gives credit to his predecessor, Edwin L. Harper, for reorganizing the program for President Reagan and getting it on its feet in less than six months.

An inspector general tracing the federal dollar through the labyrinth of bureaucracy is unlikely to come up empty-handed. After all, federal expenditures total more than $750 billion annually. President Reagan has termed the rate of government spending "incomprehensible": more than $2 billion a day, $1.4 million a minute, about $23,000 a second. The IGs have plenty of material to work with, and they're finding many examples:

- The IG at Health and Human Services revealed that $40 million in Social Security benefits had been paid to 8,518 people listed in Medicare records as deceased. Payments were stopped, and efforts to recover the money continue.
- Education's IG uncovered a fraudulent scheme involving a large U.S. corporation's handling of default claims connected with the Guaranteed Student Loan Program. One employe was convicted, a fine of $31,000 was paid and an agreement to repay $3,750,000 for improper default claims has been reached.

Joseph R. Wright, Jr., head of the President's Council on Integrity and Efficiency, chairs a meeting of IGs. His goal: to prevent misspending before it happens.

- Interior has demanded more than $10 million in additional royalty payments from two major oil companies. More than $500,000 in interest has been assessed.
- The Environmental Protection Agency's IG concluded it would be inappropriate to spend more than $17 million in federal money for a greenhouse and horticultural facility at a San Francisco wastewater project. He also took a dim view of a $5.4 million, 25-year sand replenishment program at ocean beaches. Federal funds will therefore not be spent on those items.
- The IG at Agriculture uncovered

schemes in which one person would receive food stamps again and again at different locations. Congress took the IG's advice and wrote new regulations into the $12 billion program, requiring beneficiaries in large cities to have their photographs attached to their food stamp authorization cards.

• Studying a plan for eight new dormitories, the IG at the Veterans Administration found that renovating existing structures, rather than building new ones, could save $76.6 million and provide more beds. The VA's chief medical director is re-evaluating the plan.

• A three-pronged investigation in Memphis by IG auditors from HUD, HHS and Agriculture produced 49 indictments against recipients of HUD housing assistance payments. Total amount of suspected fraud: $177,000. Another 65 indictments were returned against participants in Agriculture and HHS programs.

• IGs at Labor and HHS discovered more than 1,000 recipients of the black lung benefit program were dead. The payments were cut off. Moreover, one of every five payments in the program since 1974 was improper, the Labor IG determined. The improper payments amounted to $9.2 million.

• Inventories of platinum, gold, silver and other precious metals were not being reported to DOE on time, the department's IG discovered. Also, DOE laboratories and off-site contractors were not always safeguarding such metals. The IG estimated that more than $430,000 could be saved annually if the department established a pooling program that would provide contractors with recycled precious metals at prices considerably below market prices. The department's pooling program is working and has been expanded.

John V. Graziano, Agriculture's IG, fights rampant fraud in food stamps.

THE IGs also set out to change the attitude in some quarters that federal loans are outright grants. Last year the Office of Management and Budget estimated that more than $25 billion of the $175 billion owed the government was either delinquent or in default. OMB calculates that more than $10 million was being wasted every day on interest charges the government had to pay on its own debt because these loans were outstanding.

So agencies must now designate an individual with direct responsibility for debt collection. The agencies are committed to collecting $1.5 billion in overdue debts each year for the next three years.

Former IG chief Harper expects the program to become chiefly a deterrent to fraud, waste and mismanagement. If the program works, he says, the grand total of money saved through its efforts should steadily drop.

For the future, Wright sees a shift in the nature of the IGs' efforts. "Right now, they are junkyard dogs," he says. "The auditors and investigators come in after the fact, blowing the whistle on an improper payment after it has been made. But the best way is to get in before the contract is made and make sure the money isn't mismanaged in the first place."

The trouble is that the government doesn't have a management program that allows the IGs to get involved that way. There are hundreds of government payment centers and hundreds of payroll systems. None allow for automatic cross-checking to prevent errors. Auditing is all done manually, and hence very slowly.

Wright is now putting together a program, called Management Reform '88, designed to reform the way the government pays out money. Getting the idea accepted and implemented will be slow and painful, he says, but "it's something that needs to be done." □

Old Idea Gets New Push

"The inspectors general program really started with George Washington," says Edwin L. Harper, former chairman of the President's Council on Integrity and Efficiency.

At Benjamin Franklin's recommendation, Harper explains, Washington named Baron von Steuben inspector general of the Continental Army. Von Steuben drilled raw recruits that cold winter at Valley Forge. Suggests Harper: "He was probably concerned about waste in blankets."

The modern IG program was set up by Congress in 1978 because of increasing concern over inefficiency in government, particularly in the Pentagon during the Vietnam War and in welfare programs.

Though the Carter administration was cool to the idea—some officials felt the program was an unwarranted intrusion into federal agencies' domain and represented yet another layer of bureaucracy—it had the support of the General Accounting Office, Congress' investigative arm.

The Reagan administration has given the program higher priority.

On Inauguration Day the President fired all incumbent inspectors general in a slate-cleaning operation and then rehired some and appointed others—a move that was criticized in Congress. Said one July, 1981, House report: "Disruption caused by the mass removal in inspectors general, lack of permanent leadership for many months, and serious deficiencies in resources have undoubtedly severely hampered the work of the IG offices."

Legislators also worried that a dangerous precedent had been set. In theory, the IGs are above politics. Reagan's action, the House report said, "created the widespread concern that it was the first step in an effort to 'politicize' these offices."

Nevertheless, legislators conceded that "the offices have continued to achieve impressive savings and recoveries . . ."

Reagan denied that politics had anything to do with his appointments. "We sought the best people available," he explained, "individuals with experience who have uncovered cases of fraud and waste in government and have saved or recovered millions of dollars."

He added, "Believe me, we are out to get control of our lives—and we are going to follow every lead, root out every incompetent and prosecute any crook we find who's cheating the people of this nation."

PHOTO: WAYNE PARTLOW

Edwin L. Harper, assistant to the President for policy development, heads the White House Property Review Board.

ly should be applied to the debt rather than current deficits. Practically, however, the sales would affect deficits because interest on the debt increases budget red ink.

The proposals on speeding up sales of federal properties provide for retention of those now filling national needs, ranging from active military operations to recreation.

Although revenue needs have stimulated interest in property sales, the issue of federal ownership of property had become controversial in recent years because of the "Sagebrush Rebellion," centered in Western states.

The U.S. government owns about one third of the land in the nation—more than 700 million acres—and most of those holdings are in the West.

Leaders of the Sagebrush Rebellion argue that the federal presence subjects their states to excessive domination from Washington and prevents land from being put to more productive uses that would help local economies and provide tax revenues.

The prospect of selling substantial amounts of federal property concerns some on Capitol Hill.

The House Subcommittee on Government Activities has been looking into administration plans for property disposal. Chairman John L. Burton (D-Calif.) says the panel hopes "to provide a sounder basis for expectations, or fears, that have arisen from the vagueness and generality of the early outlines of the administration's program."

Sen. Henry Jackson (D-Wash.) has commented, "I simply do not see how anyone can benefit by a crash program to dispose of federal lands."

Proposals to exchange unused or unneeded land for deficit-reducing revenue have business support, however.

The U.S. Chamber of Commerce told a Senate subcommittee considering proposals for property disposal, "All lands owned by the federal government should be used in a manner that will result in maximum net public benefit. ... Where urban and suburban development, agricultural, mineral, grazing or timber production uses are the predominant values of such lands, the ultimate objective should be to make them available for private ownership or use, unless that is clearly not in the public interest." □

Wide range of experts agrees...

AMERICA'S ECONOMIC FINANCIAL HEALTH OF

By Charles J. Cicchetti

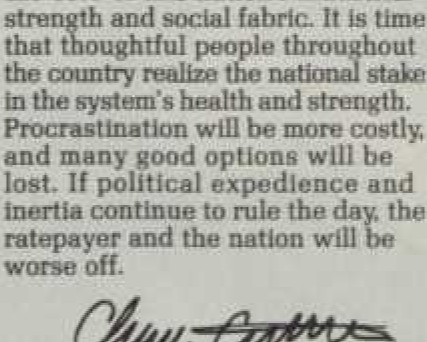
Former Chairman, Wisconsin Public Service Commission

During the past ten years, I have watched the electric utilities go from blue-chip investments to companies beset with financial difficulties. As a nation we face disastrous deterioration of our industrial strength and our living standards —unless this trend is reversed.

The electric utility system is the core of this nation's industrial strength and social fabric. It is time that thoughtful people throughout the country realize the national stake in the system's health and strength. Procrastination will be more costly, and many good options will be lost. If political expedience and inertia continue to rule the day, the ratepayer and the nation will be worse off.

By Alvin L. Alm

Director, Energy Security Program, Kennedy School of Government, Harvard University



The investor-owned electric utility industry is in financial trouble. Some public utility commissions, reacting to public anger over rising electricity rates, have squeezed utility earnings and returns to investors so that capital improvements have been delayed or denied.

Restoring the financial integrity of investor-owned electric utilities is crucial if this nation is to have a strong economy and a healthy society. An industry that is financially strapped, heavily in debt and enervated from constant battles with state regulatory commissions is in no shape to meet urgent national needs.

By Maurice Fulton

Chairman of the Board, The Fantus Company

The ability of America's electric utilities to make the investments necessary today to assure adequate supplies tomorrow is critical to the industrial revitalization of the country. New generating facilities can require ten years or more to be brought on stream. In the meantime, existing facilities are becoming out of date and increasingly expensive to operate.

But utilities cannot invest in new generation, transmission and distribution facilities—or even adequately maintain existing facilities —if they cannot attract investment capital. To do that, they must be permitted to earn sufficient amounts to assure their financial health and provide returns competitive with other potential investments. In many cases, shortsighted regulatory policies are sapping the financial strength of utilities so that they are having difficulty raising capital at reasonable cost.

Consequently, programs for new capacity, conversion to cheaper, dependable fuel supplies and replacement of obsolete facilities have been postponed or abandoned.

With alarming frequency, utilities are telling us that they cannot economically handle the increased demand a major industrial development represents today, much less provide assurance of adequate supplies into the 21st century.

The eventual cost to the communities served by these utilities —in lost employment, erosion of tax base, stagnant economic activity— will far outweigh the cost of restoring America's electricity system to financial health.

By Eugene M. Lerner

Professor of Finance, Northwestern University Graduate School of Management

Future costs and quality of service depend upon the ability of electric utilities to finance new facilities and equipment now. To attract the capital required, utilities must be able to earn sufficient amounts to provide a fair return to investors after actual operating costs have been defrayed.

Unfortunately, the returns permitted by most state regulatory commissions today are below those offered by competitive, relatively safer investments. Actual

FUTURE HINGES ON ELECTRIC UTILITIES

returns are even lower. As a result, many utilities have had to cut back efforts to increase efficiency, convert to lower cost fuel, and develop new generating technology. When they do undertake such programs, they often must pay premium rates for funds.

Sooner or later, the consumer must pay the higher financing costs that financially weak utilities incur. An alternative is to delay necessary improvements, which will mean still higher costs in the future and possible deterioration of service.

As an important result of more favorable regulation, utility managements are able to make operating and investment decisions based on long-term public need, rather than on short-term financial exigencies.

By Sanford I. Weill

Chairman, Shearson/American Express Inc.

Business and industry are dependent upon adequate, reliable power at the lowest possible price. Without it, the companies in which our clients invest could not prosper.

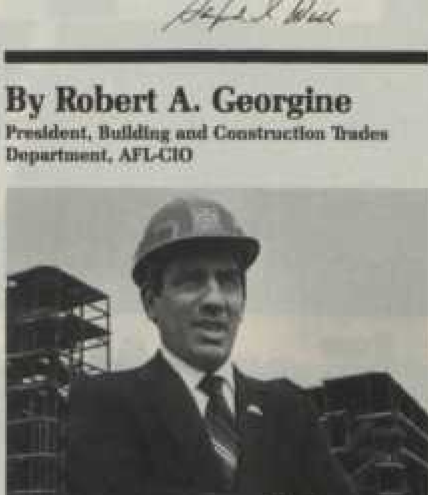
Emerging industries could not grow, and basic industries would disintegrate. Essential programs to rebuild the nation's industrial plant and increase productivity would be doomed.

Electric utilities will have to spend about $340 billion in the remainder of this decade to increase the efficiency of existing facilities, reduce dependence on petroleum fuels and build the minimum capacity required to meet tomorrow's power needs.

At least half that capital will have to come from outside investors. For utilities, probably more than any other kind of business, that means being able to attract the savings of individuals.

By Robert A. Georgine

President, Building and Construction Trades Department, AFL-CIO



No one has a greater stake in the financial health of the nation's electric utility industry than Americans who work for a living.

Utilities must be financially strong in order to make the investment necessary to power the industrial revitalization the United States needs if we are to produce the jobs that are absolutely essential to bring about our immediate economic recovery and subsequent growth.

Industry strongly considers the availability and dependability of electricity in its decisions to locate new or to expand existing plants. Communities which cannot assure reliable, abundant power over the long term, therefore, will lose jobs and tax revenues. Indeed, we are already seeing some signs of this on a regional basis.

By Claire V. Hansen, C.F.A.

President and Chief Executive Officer, Duff and Phelps, Inc.

Utilities in states where reasonable rates are permitted have higher credit ratings. Therefore, they can raise funds at lower cost to the consumer for plant and equipment modernization, conversion to lower cost fuels, new technology development, transmission grid maintenance, and meeting basic local growth requirements. Denial of reasonable earnings will inevitably result in degradation of service—including possible power rationing and brownouts—and even greater escalation of costs to consumers over the long term.

When establishing allowable rates of return, regulators must balance their efforts to keep down immediate consumer costs against the even more important responsibility to assure adequate power supplies for the future.

This is one of a series of messages sponsored by the Edison Electric Institute, representing the investor-owned utilities that deliver 77% of the nation's electricity.

Participating independent authorities are not paid for these messages, but present them because they believe the issue is of critical national significance. EEI welcomes your comments.

Edison Electric Institute

The association of electric companies

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PHOTO: PICTURE GROUP

Savage storms—this one sent flood water and ice surging into Oil City, Pa., last winter—caused catastrophe losses to climb to record highs by midyear.

Why The Buyers' Market In Insurance

High investment income enables property and casualty companies to continue to accept deep underwriting losses.

By Roger M. Peirce

MOST PEOPLE would agree with Ben Franklin's notion that nothing is certain in this world but death and taxes. People in the property and casualty insurance business always thought they knew better—until now, that is. "Death, taxes and the underwriting cycle," they used to say. But something is going on in their business today that could cause them to sell their burial plots and burn their 1040 forms. The "inevitable" turn of that so-called underwriting cycle is long overdue and yet nowhere in sight. Which is good news for the buyer, as it has been for the past several years.

Since the end of World War II, property and casualty insurance companies have been on an economic roller coaster controlled by an amazingly predictable profit-and-loss cycle. For two or three years, the business makes a profit. A few years of losses follow. Then the same pattern begins all over again and runs its course of another six-year cycle. Give or take a year, that has been the scenario for 40 years.

On that same roller coaster, usually one car behind, is the insurance buyer. When insurance companies are making money, competition for most commercial lines of insurance intensifies. Underwriters are willing to slash prices and broaden coverage to attract new business and keep what they have. The market is soft.

After a couple of years of this competitive frenzy, losses mount and the toll-taking begins. Underwriters are forced to retrench as they ride the cycle's downturn. The buyer confronts a tight market: Prices are increased, sometimes drastically; coverage is often cut back severely; and some businesses cannot buy insurance at any price.

That is what the industry's cyclical history tells us should be happening now. Instead, underwriters are still riding the downswing of a cycle that is longer and deeper than any in the past. It began in 1979 when property and casualty insurance companies recorded an overall loss of $1.9 billion on underwriting operations. Losses in 1980 escalated to nearly $3.5 billion, and last year they set an all-time record, with losses approaching $6 billion.

But underwriters are still refusing to retreat despite what appears to be another record in the making. Losses for the first quarter of 1982 alone were nearly $3 billion—almost twice the amount for the same period last year. There is little doubt that underwriters are headed for their most disastrous two-year period in history, far worse than the previous $7 billion record losses in 1974-75. It took almost

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three years of tight markets for underwriters to recover from the shock of the mid-'70s.

How can an industry continue to sell its product at a staggering loss? Only a few years ago, any insurance company that allowed claims and expenses to exceed premium income was in serious trouble. But for the past three or four years, the industry's traditional profit barometer—a combined loss and expense ratio—has climbed well over 100 percent. Last year, it was 106.4 percent for the industry overall. Even conservative estimates for 1982 predict an overall-industry combined ratio in excess of 110 percent.

A ratio of 110 percent means that for each premium dollar coming in, $1.10 is paid out for losses and expenses. How can companies in an industry with an operating base that is deteriorating so badly continue to report enormous overall profits as property and casualty insurance companies are doing? The simple solution to that paradox is investment income, which has allowed underwriters to ride out this cycle for so long.

Bottom-line figures during the current cyclical downturn tell the story. Investment income outscored underwriting losses by some $7 billion in 1979 and $7.5 billion in 1980. Even last year's record $6 billion loss was offset by all-time high investment income to produce a bottom line of $7 billion in profits. No wonder underwriters are ignoring huge underwriting losses and have all but disregarded loss and expense ratios.

As long as underwriters can continue to generate enough premiums to produce an investment profit from the cash flow, this cycle is not likely to bottom out. In the normal course of events, they would have dug in long ago, and buyers would be facing a tight market. Not so, however. The insurance buyer continues in the driver's seat.

ANYONE in the insurance business today has an outlandish story or two to illustrate how fierce the competition for commercial accounts is. But such stories as these are becoming less outlandish, more routine:

• A manufacturing firm paid $95,000 in premiums last year for separate policies covering 104 vehicles at various New England locations. Now one insurer is writing all of the firm's automobile insurance for $35,000 a year—a reduction of nearly 60 percent.

• A company had been paying $120,000 annually for automobile liability insurance. When the underwriter renewed the policy this year, he reduced the premium to $80,000. That in itself was a rather pleasant surprise, but there's more: The reduced price included a premium for adding collision and physical damage coverage to the renewal policy.

• A firm in Virginia had been buying an "umbrella" of excess liability insurance for some time. The limits of liability under that policy were increased by 50 percent over the past four years, but during that period the premium was reduced from $326,000 to $178,000.

PHOTO: EVERETT C. JOHNSON—UNIPHOTO

Income from property like this mall in Washington offsets underwriting losses.

• One company combined several crime and special liability policies into a single-package policy this year and cut the total $150,000 premium in half.

Some underwriters today are pricing target accounts at a loss, knowing that the premium is still hefty enough to generate investment income to offset claims and expenses.

Jumbo accounts, with their jumbo premiums, are obvious targets for such cash flow underwriting. But these accounts are spread thinly in a market overflowing with supply. Cash flow underwriting has filtered down to small and medium-sized businesses. The name of the game today is premium volume, and that can just as well be produced by large numbers of small buyers as it can by a few giants.

If present economic conditions continue, with interest rates hovering around 16 percent, 1982 will be another bottom-line winner. But if they drop near single-digit figures, as some analysts predict, underwriters will not be able to offset the tremendous losses mounting this year. That would surely foment a tightening of the property and casualty insurance market more swiftly and fiercely than at any time in the past.

HOWEVER, if there is little change in the economy—if investment income continues to bail out underwriters—what will it take to turn this current cycle? Some industry leaders believe the current practice of cash flow underwriting threatens the future of the property and casualty insurance business and that the cycle should not be allowed to run its course.

Daniel J. McNamara, president of the Insurance Services Office, the industry's statistical and rate-making organization, warns that "insurers will have to stop relying on investment income to mask underwriting ills" and urges them to adjust prices, limit coverage or institute new risk-sharing deductible programs.

Edward E. Matthews, executive vice president for finance at the American International Group of insurance companies, points out that cash flow underwriting faces unique inflationary perils. "The expenses incurred by an insurance company up to the time the product is sold are but a small fraction of the total cost the company will incur," he says. The philosophy of enjoying the high interest income today and worrying about the claims tomorrow, says Matthews, ignores the fact that high interest rates are a corollary of inflation, which will have an impact on future claims costs.

In spite of warnings, few insurers are willing to risk retreating from the competitive battleground. Two companies—Aetna Life & Casualty and Hartford Insurance Group—have attempted to take the lead by tightening prices and underwriting standards but have been hurt competitively. "It's still a jungle out there," says DeRoy C. Thomas, Hartford chairman and president. He believes, however, that this year's disastrous losses may signal a turn of the underwriting cycle.

It seems clear that it will take more than responsible leadership to restrain the competition. The lure of investment income has attracted new players to the ball game, and that has contributed to a situation of too much supply chasing too little demand.

Historically, demand for insurance has grown with the economy, technolo-

gy and the changing legal climate. But the growth rate of written premiums for property and casualty companies has slowed considerably. Last year the industry recorded written premiums of $95.3 billion, a sluggish 4 percent increase over 1980. The growth rate in 1980 was not much better—6.5 percent. Even in a price-cutting soft market like this, those are disturbing signs. Ten years ago, the market was soft, too, but total written premiums were increasing at a rate of 11 to 12 percent.

One obvious reason for this decline is that underwriters are pricing their products lower. But other forces are at work, too: the buyer himself, for example. Captive insurance companies, formed by large corporations or industry associations to fund their own insurance protection, are taking a bite from premium volume by siphoning off business and often by insuring other companies, too. Once feasible primarily in certain offshore locations, such as Bermuda and the Cayman Islands, captives have been encouraged by recent legislation in such states as Vermont to establish operations in this country.

Other potential insurance buyers are causing a drain on the industry's premium growth with formal programs of self-insurance, many of them established when the market was tight. Recent state and federal legislation has also enabled buyers to form pools to consolidate and self-insure against loss.

THESE DEVELOPMENTS have abetted the competitive crunch to a much lesser extent than the ballooning of the supply side of this market. Some of the relative newcomers to the property and casualty market—Metropolitan, John Hancock and Prudential, for example—have been in the game since the '70s. Other companies that traditionally had been oriented to personal lines of insurance—Allstate and State Farm, for instance—continue to take a share of the commercial lines market.

Behind the scenes, there is another reason for the tremendous increase in the supply of insurance. How much business an insurance company can write depends on its capacity, and that in turn depends to a great extent on the amount of its business it reinsures.

Today the reinsurance market is flooded with fresh worldwide capital—captives in Bermuda, newly capitalized Arab reinsurers, government-owned reinsurers in Brazil and China, etc. Thus the reinsurance market is as competitive as the primary buyers' market. The low cost of reinsurance actually has a two-pronged effect. It stimulates competition: Insurance companies can sell their products for less because they can buy their reinsurance for less. It also affects the demand side of this economic picture because firms can self-insure and buy excess or catastrophe coverage at lower prices directly from reinsurers. All these new influences have created an environment without precedent.

Consider the traditional cyclical signals that would normally force a tight market. Increased losses almost always guaranteed that the marginal underwriting profits of a soft market would quickly erode, persuading underwriters to return to more conservative tactics.

But property and casualty insurers have been extremely lucky during the past few years' soft market. Catastrophe losses have not been substantial. Last year, for example, insurers paid out only $715 million in catastrophe losses.

So far this year, that luck seems to be turning. The relentless winter storms that brutalized most of the country sent catastrophe losses for the first quarter of 1982 soaring above $400 million. Halfway into the year, the figure was well over $1 billion, the highest six-month total in history and far in excess of the amount for all last year.

If all else fails to direct the cycle on an upward course, state insurance regulators might step in and try to curb underwriting excesses. New York State's superintendent of insurance, Albert B. Lewis, warned insurance companies earlier this year that his department will no longer countenance reckless price-cutting and the continued practice of cash flow underwriting. In other states, too, insurance commissioners have expressed fear that some insurance companies cannot survive the present level of competition.

A major question with which regulators are grappling is what weight investment income should carry in rate-making procedures. That controversial issue is the subject of a major investigation by the National Association of Insurance Commissioners.

It is ironic that the prolonged soft market has led regulators to believe that underwriters are relying too much on investment income in pricing most commercial business. The cost of insurance for businesses has not overly concerned regulators in the past, except for workers' compensation insurance rates, which are strictly controlled in most states. Insurance companies have been waging a battle for higher rates to overcome years of underwriting losses in that line of insurance.

PHOTO: CLIFF SCHIAPPA—PICTURE GROUP

Destructive hurricanes plus a gigantic liability loss like last year's Kansas City Hyatt-Regency walkways collapse could make 1982 a rough year for insurers.

ANOTHER FACET to this confusing state of affairs adds to the irony. Legislators in a number of states have concluded that workers' compensation insurance premiums are too high and that there is need for competitive stimulus. A half-dozen states have already passed open competition laws, loosening regulatory controls on the rates insurers may charge for workers' compensation insurance.

There is no simple solution to the dilemma that regulators face. It is clear, though, that the property and casualty insurance business is in an unprecedented underwriting cycle that seems to have no bottom. As long as investment income outpaces underwriting losses by a comfortable margin, cash flow underwriting will undoubtedly survive.

That margin will rapidly narrow if losses continue to increase at the current pace, and a decline in interest rates would reduce the margin even more quickly. But how soon the gap between losses and investment income will narrow enough to force underwriters to react is anybody's guess. □

Special Report

Strategies for The Insurance Buyer

UNDERWRITERS may be scrambling for premium dollars and cutting prices right now, but that could change quickly. Even in a soft market as unprecedented as this one, no insurance buyer should be motivated by cost alone. Whether the market is soft or hard or somewhere in between, there are other strategies a buyer can use.

Selecting insurance companies and agents or brokers requires some strategy. Many underwriters are attempting to compete effectively with responsible pricing, but others have no idea where they are on the pricing scale.

Any buyer obviously wants to assure himself that his insurance costs are in line with market conditions, and he probably should test the competition occasionally. But putting an insurance program out for bid at the drop of a hat is not the answer. The reputation that goes along with such tactics can blackball a buyer when the market tightens.

A buyer can use various strategies to get the most from market swings. Any business firm that has not taken a good look at its insurance program for several years should probably re-evaluate it now. The insurance buyer, in fact, would do well to reconsider his overall approach to protecting against risks of loss. What makes sense in a tight market may not be practical in a soft market.

The shrewd buyer in a tight market moves toward larger deductibles and buys only insurance that protects his business against risks of substantial loss. But in a soft market, underwriters can slash their prices only so far. The underwriter must have a minimum price in mind, a point at which the premium is large enough to produce the cash flow needed for a respectable return on investment. At that cutoff point, however, the underwriter may be willing to make other concessions to the buyer.

For example, the buyer can approach property insurance deductibles with different strategies. A large deductible is an effective cost-cutting technique in a tight market for the insured who can assume that risk. But today, when underwriters are slashing rates to the bone, there is not much premium left to trim. Much more likely an underwriter would write the same coverage at the same price but with a smaller deductible.

Some buyers may find that another tight-market strategy—dispensing with some coverages entirely—takes on a new perspective in a soft market. The heavy expense of insuring a fleet of automobiles against collision damage could persuade a business to eliminate that coverage from its automobile insurance and self-insure against risk of loss. The cost of the collision insurance may well exceed the amount of loss.

But as long as many underwriters are interested in the cash flow game, the gap between what a business pays for insurance and what it might pay to make good its own losses closes substantially, and self-insurance becomes less feasible.

THIS IS also a good time for buyers to reconsider insuring against risks that do not produce heavy losses—maintenance coverage, as underwriters term this sort of protection. Plate-glass insurance is a good example of a coverage many buyers pass up because it often amounts to nothing more than swapping dollars with an insurance company. But when the price of such coverage is very low, a buyer can hardly refuse the offer. One fast-food chain bought glass insurance this year simply because an underwriter was willing to discount the book rates by about 90 percent.

That sort of drastic discounting is especially prevalent if a company's insurance program is wrapped up in some sort of package policy. Underwriters are often willing to include fringe coverages in the package for a minuscule charge, sometimes even gratis. Many packages are being written today without some of those exclusions and with increased limits.

By now the buyer should certainly be accustomed to riding the ups and downs of the property and casualty insurance business. The length and severity of those cycles may be less predictable now, but they will not disappear.

The best thing the buyer can do is to assure himself that he is insured with a stable company, that his premium is reasonable and competitive and that his coverage is as broad as it should be. Then, when the market tightens and concessions must be made, the buyer has something with which to negotiate as he shifts strategy. □

—Roger Peirce

When was the last time you got 60,000 executives to agree on anything?

The Golden Bear's Golden Touch

Jack Nicklaus, golf superstar, is a star performer in the business world, too.

By Grover Heiman

Characteristics that make him a winner at golf are the same ones that make Jack Nicklaus a very successful businessman. His ability to concentrate on a single task is legendary, as is his willingness to take risks.

PHOTOS: GOLDEN BEAR, INC.

BEFORE you learn to win, "you have to learn to lose," says Jack William Nicklaus, the professional golfer who has won 19 major championships—more than any other golfer in history. What does he know about losing? Nicklaus has been second 18 times, too. And he has finished further down the list more times than that.

Jack Nicklaus the businessman hasn't always been a winner, either. He invested in auto dealerships and travel agencies. They didn't perform as promised. But he now has 32 business ventures that are winners and have the potential to make the Golden Bear, as he is known far and wide, many more times a millionaire than he already is.

Nicklaus' income from business is a closely guarded secret, but as a professional golfer he is the leading career money winner, having earned $3.9 million over the past 20 years by winning 89 tournaments around the world.

Endorsements, licensing of his name, print and television commercials, appearances and other lucrative by-products that come to a winner of his stature have swollen that amount astronomically. And then there is a string of privately held companies in which Nicklaus has an ownership interest and plays an active management role.

How does Nicklaus find time to make the professional golf tour and run a conglomerate, too? "In the last few years I've restricted the number of tournaments I play in. It's about 15 a year now—a third fewer than in the past. I'm playing golf about 40 percent of the time, 60 percent at home. Sure, when I'm away I spend a lot of time on the telephone back to the office, but playing tournaments is when I get some rest. When I'm at home, I'm on a merry-go-round."

Home is North Palm Beach, Fla., not far from a three-story building that is headquarters for Golden Bear, Inc., Nicklaus' licensing company, and many of his other ventures. In all, companies in which Nicklaus has an ownership interest have more than 1,000 employes.

"If I'm smart in a business way," he says, "it's because I'm smart enough to know I can't do everything myself. I've surrounded myself with good people who are given the responsibility and the authority to run their operations."

Nicklaus recognized in 1975 that his business ventures were getting out of control. He was determined to remain on the tournament circuit, but his other activities were becoming more time-consuming, and financial problems

were looming. He asked an executive search firm to find someone who could take over as chief executive officer and put the organization on a sound financial basis.

The searchers produced Charles Edward Perry, a former vice chancellor of the Florida state university system who had recently resigned from Charter Company's communications and publishing operations (*Family Weekly*, *Redbook* and *Ladies Home Journal* magazines, radio stations and printing).

For the short term, they restructured the organization and trimmed the staff, saving an estimated $350,000 annually. For the long term they took a hard look at the enterprises and set goals.

"We decided we would focus on three areas," says Nicklaus. "Real estate, insurance, and oil and gas development. Then we got MacGregor."

Last spring Nicklaus and former Wickes Companies executive vice president Clark Johnson acquired 75 percent of MacGregor Golf Company, which makes clubs and other golf equipment, from Wickes for $17 million. (Wickes, which retained 25 percent of the stock, has since filed for Chapter 11 protection.)

Nicklaus owns more than 50 percent of MacGregor's stock, but he is not an officer or director—for a good reason. Just before the sale Nicklaus signed a contract in perpetuity with MacGregor as its playing professional; industry observers estimate that it will make him $6 million richer in a decade.

As a manufacturing firm, MacGregor didn't fit into the three focus areas. But Nicklaus wanted it anyway.

"It was an act of love," he says. "I've never played with anything but MacGregor clubs. And it was a good investment. MacGregor is a very healthy company."

Johnson, who is president and chief executive officer of MacGregor, expects worldwide sales of nearly $50 million this year, due in no small part to MacGregor's Jack Nicklaus and Golden Bear clubs.

Golden Bear, Inc., the first Nicklaus venture, is the umbrella firm that Nicklaus uses to market Jack Nicklaus the golfer.

It licenses his name to companies that produce a Jack Nicklaus line of products: Australia's Dunlop Slazenger golf equipment; Hart Schaffner & Marx suits, blazers and slacks; J&L Clark's (Bostonian) Jack Nicklaus golf shoes; and Warnaco's Hathaway shirts and Puritan sweaters.

Golden Bear also handles Nicklaus' endorsements. He appears on television for companies ranging from American Express to Magic Chef and the Pontiac division of General Motors. Some advertisers in Japan use him, too.

Designing golf courses and resort developments is an important part of Nicklaus' conglomerate.

The writings of Jack Nicklaus the author are published by *Golf Digest*, King Features, Pocket Books and Simon & Schuster. His works are also published in England, Germany, Italy, Spain, Japan and Switzerland.

GOLDEN BEAR PRODUCTS sell to the tune of megabucks—$150 million in Japan alone and an estimated $100 million in the United States—and the Golden Bear reaps royalties that are staggering. But it's the ventures in which he has an ownership interest that could well bring him to superrich status before he sinks his last putt and gives a final wave to his cheering fans.

MacGregor is one such venture. Nicklaus also has a significant minority interest in the Hughes/Nicklaus Oil Company, headquartered in Denver, an oil and gas exploration firm; and International Financial Services, a Miami-based insurance company.

He is the principal owner of a complex of companies that design golf courses, provide maintenance services and manage the food and beverage operations. Nicklaus bids out the construction, but his company will handle the entire package for a golf course development and will go in on joint ventures for resorts. He also lends a hand in marketing and promoting a resort that includes a Nicklaus-designed golf course.

Financial backing for real estate efforts is essential. In 1980, when California's famous Pebble Beach golf course and resort went on the market, Nicklaus made a bid, but 20th Century Fox came in under him. Getty Corporation is now allied with Nicklaus for such ventures.

Perry, Jack Nicklaus' business partner and vice chairman of Golden Bear, says, "Jack is not a high flier, but he's a risk taker."

It is not difficult to believe that Jack Nicklaus, a fierce competitor and an entrepreneur, would have risen to the ranks of chief executive officer of a major corporation had he chosen that career.

Nicklaus, for example, has personal discipline. In 1969 he carried 215 pounds on a 5-foot-11-inch frame. In those days he was vying with Arnold Palmer, and the contrast was startling.

"I didn't much look like an athlete," says Nicklaus. "I was too heavy. I didn't dress well, and my appearance wasn't good. I was a fat guy who wore little porkpie hats."

That year Nicklaus, a man with a prodigious appetite, went on a diet, lost 15 pounds in two weeks and then shed another 10 pounds. The pudgy, bearlike man melted away, and a svelte Jack Nicklaus emerged. He has not gained weight since.

Two years ago, at age 40 and after playing a mediocre season, Nicklaus tore apart the famous golf swing he had been using for nearly 30 years and created one that better suited his latter-day physical capabilities. And he became a

winner on the pro golf circuit again.

Another characteristic that sets him apart is his memory. After a match Nicklaus can recount in rapid-fire order each hole—distance of each shot, club used, break of each putt.

Nicklaus the businessman uses that memory to full advantage. But he doesn't want long memorandums and reams of detail from his staff, and he conducts meetings with only a brief written agenda. A few hours' worth of discussion gives Perry enough work for a week.

"Nicklaus knows what's going on," Perry says. "He has the ability to concentrate on a topic, and he listens well. He's not afraid of addressing difficult problems; he gets right to the heart of the situation and makes a decision. You have to know the book to run this organization, but you can't run this organization by the book."

Nicklaus' concentration is well-known to the millions who have seen him on the course via television.

"The ability to concentrate to the fullest on what I'm doing—I don't know where it came from—has helped me in life more than anything else," he says. "Once something is finished, I can switch off and go to something else without thinking about that again or about what I have to do in the future. So when I'm on the golf course, I'm able to concentrate on golf. I don't carry my business operations out there. Same way with fishing. When I'm fishing, I'm fishing."

Clark Johnson verifies this ability to concentrate on business matters. After gaining ownership of MacGregor, Nicklaus and Johnson had a marathon six-hour session to go over a number of problems. At the end Johnson was bushed, but Nicklaus was still fresh.

Yet Nicklaus admits there are times when he tires from this fierce power of concentration. "The most tiring day I have is when I'm working on a new golf course," he says. "That's because I know that what I do that day will be there permanently, and I don't want to mess it up. That work is very important to me because I'm creating something. It absolutely drains me. But it's fun."

GOLF COURSE DESIGN is one part of the business that Nicklaus doesn't delegate. He started this phase of his business in the early '70s, and today there are 23 Nicklaus-designed golf courses around the world. Another 20 are under construction. The Nicklaus organization is also involved in seven major resort communities now being developed.

In recent years another side of Jack Nicklaus has emerged. "I'm a tree and plant nut," he says. "I hate to cut down a tree. I'm really proud of what we did at Bear Creek in Southern California. The property had something like 358 mature oaks, and we had to cut down only one."

Horticulture, too, has become a passion for Nicklaus. He bought two lots across the street from his home and built a greenhouse, where he raises a wide variety of fruit trees and exotic plants, such as orchids.

"You see golf courses with the same landscaping going in everywhere," he says. "I want to build courses and landscape them with fruit trees and plants native to the areas. I think it's fun to be able to walk along a golf course and if you're hungry, pick some fruit and eat as you go along."

Sons Steve (above) and Jackie caddie for their father when college schedules permit.

Another consuming passion is family. Nicklaus and Barbara Bash, the college sweetheart he married in 1960, have four sons and a daughter. Jackie (Jack, Jr.), 20, is at the University of North Carolina on a golfing scholarship; Steve, 19, is at Florida State on a football scholarship. At home are Nan, 17; Gary, 13; and Michael, 9.

Jackie and Steve alternate caddying for their father, who frequently takes the entire family on tournaments. "That way the kids spend time with me in a situation where they normally wouldn't. They are involved with the pressure, with what their father's life is like." Nicklaus, who speaks rapidly, pauses and says proudly: "Our kids are good kids."

This golf champion also skis and plays tennis, and he is an avid outdoorsman. He always schedules a fishing or hunting expedition after his trips overseas when the family is along. This year, after the British Open, they went to Iceland for salmon.

NICKLAUS must sometimes wonder what would have happened if his father, a Columbus, Ohio, pharmacist, hadn't broken his ankle and taken up golf for the walking exercise the doctor ordered.

Charles Nicklaus took his 10-year-old son along as caddie, and when he tired, he would rest and young Jack would "sort of fiddle around the greens." Recognizing a latent talent, Charles Nicklaus offered his son golf lessons and bought him a set of MacGregor clubs when he was 11.

Two years later Jack Nicklaus won the Ohio State Junior Championship and then proceeded to fill the house with trophies on his march to the big one, the U.S. Amateur, which he won at age 19. The following year he came in second to Arnold Palmer in the U.S. Open, in which both professionals and amateurs compete.

After three years of pharmacy at Ohio State, Jack changed his major to business administration (insurance). "You're going to be a golfer, and pharmacy is too confining," his father told him.

Nicklaus turned pro in 1962 (he won $33.33 in his first tournament) and five months later defeated Palmer in an 18-hole playoff for the U.S. Open. It was an unpopular victory, and Nicklaus can remember hearing a few grumbles from the gallery. Trim, handsome Arnie was a popular superstar, and to be defeated by a burly upstart was simply too much for some of Palmer's fans to swallow. It was 10 years before Nicklaus felt accepted by the fans.

Today Nicklaus is the superstar of golf who patiently and pleasantly signs autographs until his fingers ache and who subjects himself to marathon sessions with the media in an effort to promote the sport and the tour.

Why does he do it? "I've been out here on the tour for a long time, and people have treated me nicely for a long time. You treat people nice and they treat you nice in return." And there is a nice bonus—each one of those nice people is a potential customer for a Nicklaus product or service. □

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Campaign '82

Making Time For Politics

By Michael Thoryn

WHEN a fellow Texas executive decided to run for Congress, Rex V. Jobe took on the job of finance chairman for the campaign.

Jobe's efforts raised almost $500,000, which helped Steve Bartlett, an owner of a small manufacturing firm, win a hotly contested GOP primary fight in a district that normally elects a Republican to Congress. Bartlett is favored to win the November election.

"At the peak," Jobe says, "I was putting in an average of two hours a day on mailings, phone calls and personal visits. And Steve and I spent a week in Washington calling on political action committees' representatives."

Did Jobe begrudge any of the time away from the Color Place, the Dallas-headquartered photo-processing firm he heads?

"Except for the visit to Washington," he says, "a lot of my political work was done before 9 a.m. and after 5 p.m. So it didn't have much effect on my business. And I was glad to give the time because I think Steve Bartlett belongs in Congress."

Jobe has a commitment to small business political activism that goes far beyond his congressional district. He is cochairman of the Small Business Political Task Force established by the U.S. Chamber of Commerce to help small business people realize the potential of their influence at the polls.

Lobbying members of Congress is important, says Jobe, but "it's more important to elect the right person in the first place. You don't have to worry much about what type of legislation gets passed if you elect the right legislators."

Thousands of owners and operators of small firms across the country agree. Small business people are becoming more active in political campaigns than ever before. In addition to making contributions, they are doing such things as holding fund-raisers in the living room, buttonholing the business owner next door, licking envelopes, making phone calls, and signing endorsement letters and newspaper ads.

"Small business isn't awake to its full political strength, but the giant is stirring," says J.R. Kirkland, Jobe's task force cochairman.

Kirkland, president of Florida Business Associates, which works in Washington for a number of Florida companies, says that "the organized small business community is feeling its oats after legislative victories." He cites passage of the Small Business Innovation Development Act, which sets aside a percentage of federal research and development funds for small high-technology firms, and the Prompt Payment Act, which requires federal agencies to pay interest on bills not settled within 45 days.

"The next step," Kirkland says, "is moving from legislative action to direct political action."

Kirkland, a Democrat, served as research and policy director of the January, 1980, White House Conference on Small Business. Though small business is still a "largely unorganized political and economic resource," he says, the conference was "a revelation of what America's entrepreneurs can do when they band together for a common purpose."

In years past most of the owners of the nation's approximately 10 million small firms had a pat answer ready when they were contacted by po-

Businessman Rex Jobe (left) works to elect probusiness candidate Steve Bartlett.

PHOTO: THE COLOR PLACE

Small business people are more active politically than ever before—and with good reason.

litical campaigns: "Don't have the time."

They had time for community projects and church service but were "turned off by politics," Kirkland says.

But now, "the small business community sees it can make a difference in politics," says Carter Schelling, president of McArdle-Desco, a New Castle, Del., industrial parts distributor. Schelling became active in political work through the small business council of his local chamber of commerce.

Washington has long hampered the operation of small firms in many ways, notably through heavy paper work requirements and complex tax laws, he says. Small business activism won't be a flash in the pan, Schelling insists. He and other activists around the country say they are committed to politics for the long haul.

THE 1980 election showed some early results. Several congressmen owe their seats—and several more attribute use of the word "former" on their résumés—to small business efforts. And that translates into Washington clout. If a congressman, or a President, for that matter, believes he owes his election to a particular constituency, that group then acquires heightened power and access.

Small business organizing efforts will win more races this fall, and in some districts small business issues will dominate the debate, says Ivan Elmer, director of the U.S. Chamber's Small Business Center.

Candidates in such districts emphasize small business' crucial role in the U.S. economy and stress that enterprises with fewer than 20 employes create two thirds of new jobs. They say they will work to help bring down high interest rates, which are strangling business expansion and causing bankruptcies.

Most important in the short time until November, says Elmer, "is establishing small business in this game as a sophisticated, powerful actor. With the groundwork laid in 1982, watch out in 1984."

The Chamber's political task force aims at mobilizing the federation's small business members. More than 85 percent of the 250,000 firms that belong

Candidate Tony Guglielmo makes the rounds of small firms. A businessman himself, he understands the concerns of Loos & Company (left) and knows the importance of family ownership to three generations of Fauchers (bottom). Percel Manufacturing (below) will count on him if he is elected.

PHOTOS: PAMELA PRICE—PICTURE GROUP

to the Chamber employ 50 or fewer persons. The task force is focusing on some 100 close races where extra effort by small business people could decide the outcome.

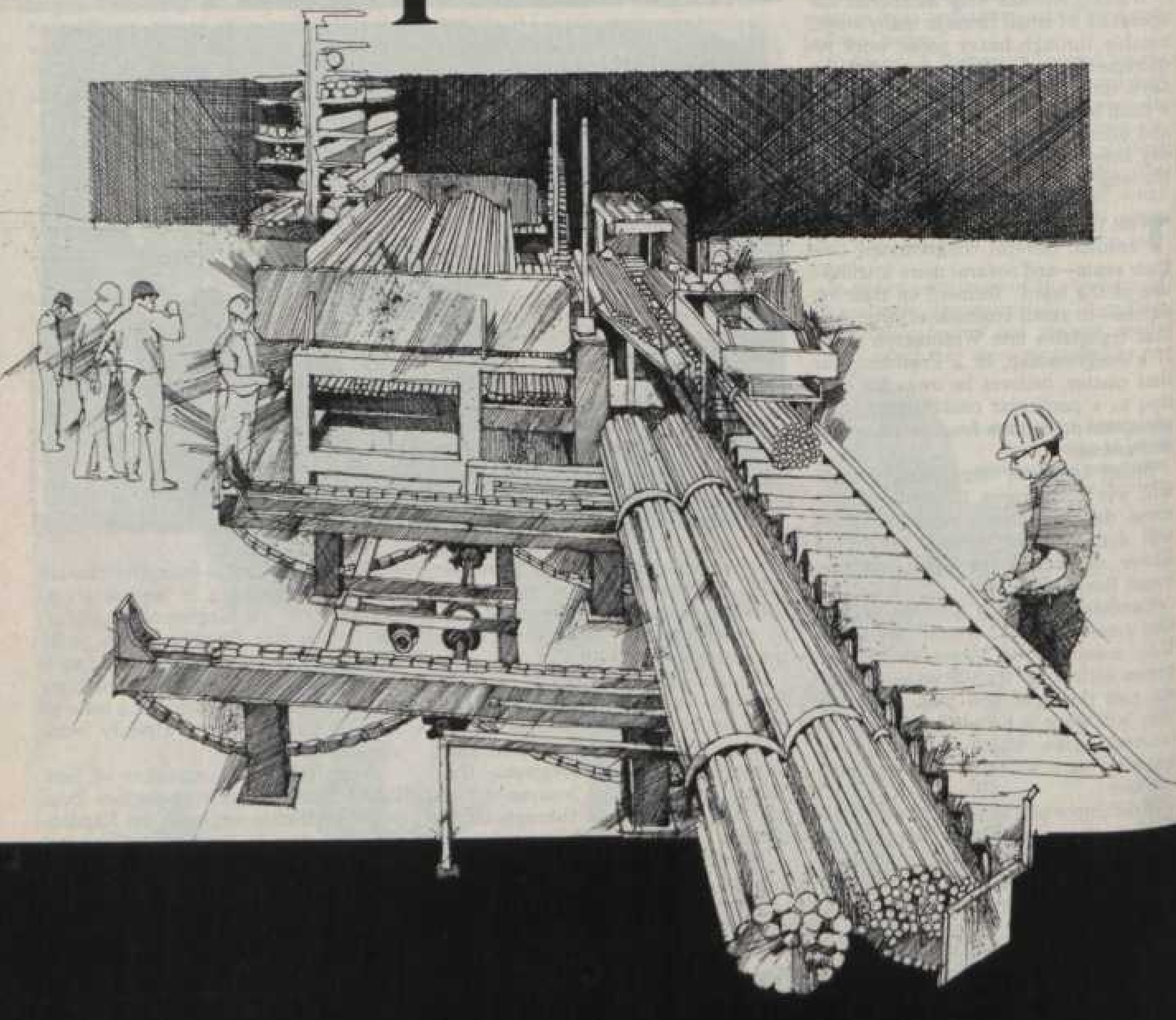
Edward Locke, campaign manager for Tony Guglielmo's Republican campaign in Connecticut's second district, is one beneficiary of increased small business political involvement. Guglielmo, who owns an insurance firm, has business friends throughout the district.

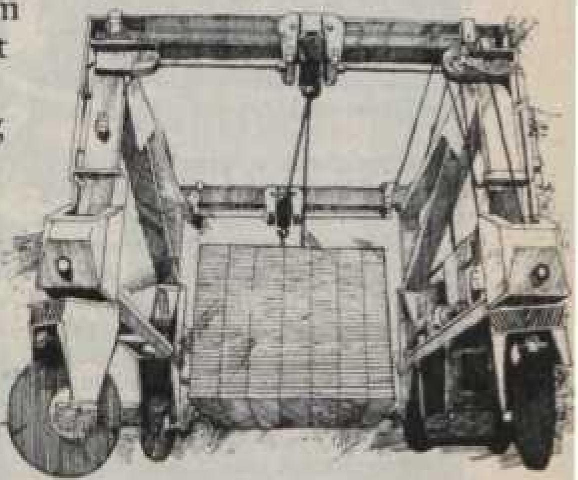
"Small business is like a brotherhood; it reaches out and pulls people in," Locke says. He adds that the campaign looks on small business people as community leaders, "people who are respected not only because they are employers but also because they care about their towns."

The small business executive can aid a political campaign in several ways. For example, the Guglielmo headquarters office was furnished with desks from a scrap metal dealer and partitions from a lumberyard. (A shopping mall offered office space, but a lease at another location had already been signed.)

Gene Holderness, manager of Sen. David Durenberger's re-election campaign in Minnesota, says the Republican senator has come to several fund-raisers held by small business people and has spoken at numerous breakfast meetings of local business groups. These groups often lend their mailing lists for appeals for funds and volunteers.

In a letter to Minnesota members of the U.S. Chamber of Commerce, Al





'82

Claseman of St. Paul, a member of the U.S. Chamber's Small Business Council, wrote: "Dave has worked hard for us, and now it is time to work for him. We are asking you to join a network of small business people across Minnesota who are committed to Dave's re-election. We are not asking for massive amounts of time or money—just a show of support for Dave in your community."

That letter and others like it have paid off. Hundreds of small business owners are working for Durenberger in more than 30 Minnesota cities, Holderness says.

Endorsement letters are key vehicles for pinpointing the business stake in an election for owners of the smallest businesses. Even the busy owners of so-called microbusinesses—firms with one to five employes—can make phone calls at night, go door-to-door on a weekend afternoon or make a small donation, Jobe says.

A small business owner can also leverage his efforts by talking with his employes about upcoming political choices and can even start a company political action committee to raise funds, Jobe adds.

Besides donating time and money, small business people are offering themselves up as candidates. Locke says they make good ones because of their community contacts and knowledge of community needs. "They know what can be done locally to solve problems," he says. With the federal budget in disarray, a business person's budget-balancing skill is another valuable credential.

Incumbents are taking note of small business campaign clout. "Even politicians with horrible business voting records talk about how they've helped small business," says one campaign consultant.

The national political parties aren't targeting small business for special attention this year. They are, however, tooling up for the 1984 presidential election.

"The small business community tends to be conservative and gravitate to the Republican Party," says Jobe's colleague, Kirkland. To change that tendency, the Democratic National Committee has formed a small business advisory council. The council's initial charge is to develop issues for the next Congress and planks for the 1984 party platform.

"Perhaps the party will come back to the Jeffersonian concept, where small business people, like shopkeepers and small farmers, are the natural backbone of the party," Kirkland muses.

For its part, the Republican National Committee has started an innovative private sector program called Working Partners. Candidates underscore their interest in small business by spotlighting and assisting such voluntary activities as tax preparation for senior citizens and job counseling for troubled youth—activities frequently carried out by small business people. "The needs of citizens can be met without costly and burdensome government interference," says Lee Edwards, the program's director.

Out of frustration, Rep. Andy Ireland (D-Fla.) began an effort to boost small business electoral success. Ireland, who serves as a member of the House Small Business Committee and is a sponsor of the milestone Regulatory Flexibility Act, which requires federal agencies to consider the effect of their regulations on small firms, has started a congressional small business campaign committee.

This group of business people will raise and distribute funds to candidates of either party who pledge to support small business issues.

PHOTO: ART STEIN

Rep. Andy Ireland: "For too many years, too many in Congress paid lip service to small business . . ."

"For many years, too many in Congress paid lip service to small business while they voted for more government regulation and higher taxes," Ireland says. "When important decisions were made, small business lost out to other organized interests."

He points out that in the 1980 elections, small business groups contributed a total of $217,000 to congressional candidates through political action committees.

That's a big increase over past elections but far behind other interest groups. Organized labor PACs contributed $14.2 million, Ireland notes, and PACs of publicly held corporations contributed $21.7 million.

The 1980 election was a trial run at politics for small business. Small firms' impact on the 1982 election will be significant; almost certainly, the impact will be even larger in 1984. A basic lesson has been learned.

In the words of one small bu[siness]man active in politics, "I wou[ld] get the right guy in Con[gress] have to work with the wron[g]

Correction

A box in last month's Nation's Business that showed how congressional incumbents are rated by major organizations—business, labor union, conservative and liberal—erroneously stated that all those listed were up for re-election. The box was on page 58, at the end of an article in the "Campaign '82" series.

Of the senators listed, only three—Orrin Hatch (R-Utah), Harrison Schmitt (R-N.M.) and Malcolm Wallop (R-Wyo.)—are running this year.

Of the House of Representatives members, two—Robin Beard (R-Tenn.) and Floyd Fithian (D-Ind.)—are running for Senate seats. All the other House incumbents listed hope to be re-elected in November.

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Bob Dole's New Look

The Senate Finance chairman's drive for tax increases came as a surprise to many old friends.

IT SEEMED unlikely, when Robert Dole took over the gavel of the Senate Finance Committee at the dawn of the 97th Congress, that he could be a dominant figure on tax policy.

The Kansas Republican labored under the large shadow cast by his wily, respected Democratic predecessor, Russell B. Long of Louisiana, who had headed the committee for 15 years.

Further, there was a general assumption that Dole's principal job would be implementing tax decisions made by the White House.

So it appeared last summer.

But for much of this summer, it was clearly Bob Dole who was the dominant figure on tax policy, at key points eclipsing both the President and his fiscal advisers and the leadership of the House of Representatives, which has authority under the Constitution for originating tax legislation.

Almost single-handedly, Dole put together and bludgeoned through the Senate a hotly controversial bill calling for a record round of $99 billion in tax increases over three years.

Key provisions of the bill targeted business for the majority of the tax increases, and Dole's aggressive leadership in pressing such legislation came as a surprise to many of his old friends in the business community and in the ranks of conservative members of both parties.

There was an Alice-in-Wonderland quality to the passage of the tax bill through Congress.

Here was Bob Dole, who had come to the chairmanship of the Senate's tax-writing committee on a tidal wave of conservative Republicanism, fighting ferociously for a tax bill that contained many antibusiness provisions liberal Democrats had sought for years.

And here was Dole making common cause on tax policy with House Speaker Thomas P. "Tip" O'Neill, who has been widely caricatured by Republicans over the past two years as the most visible symbol of tax-and-spend policies repudiated by voters in 1980.

Among other things, the Dole bill called for cutbacks in tax provisions designed to encourage business investment, the withholding of taxes on dividends and interest, repeal of a law allowing oil and gas companies credits against costs of foreign operations, restrictions on tax-deductible contributions to pension plans, and additional changes that would affect business adversely.

WHY, critics of Dole asked, does the country need Republican leadership if it is going to enact Democratic programs?

Dole insisted that the added revenues were needed to ease budget deficits blamed for higher interest rates and to make the tax laws more equitable.

But Dole's plan, despite White House backing, touched off a storm of opposition from key segments of congressional conservatives and the business community.

The U.S. Chamber of Commerce assailed the tax plan as "an economic blunder of epic proportions" and spotlighted 17 provisions that it said would be "extremely harmful" to business, large and small.

"Incredibly," the Chamber said, "Congress is contemplating actions that would not only raise taxes at the worst possible time but also endanger prospects for lower interest and inflation and impose heavy new operating costs on many businesses."

Rep. Jack Kemp (R-N.Y.), a vet-

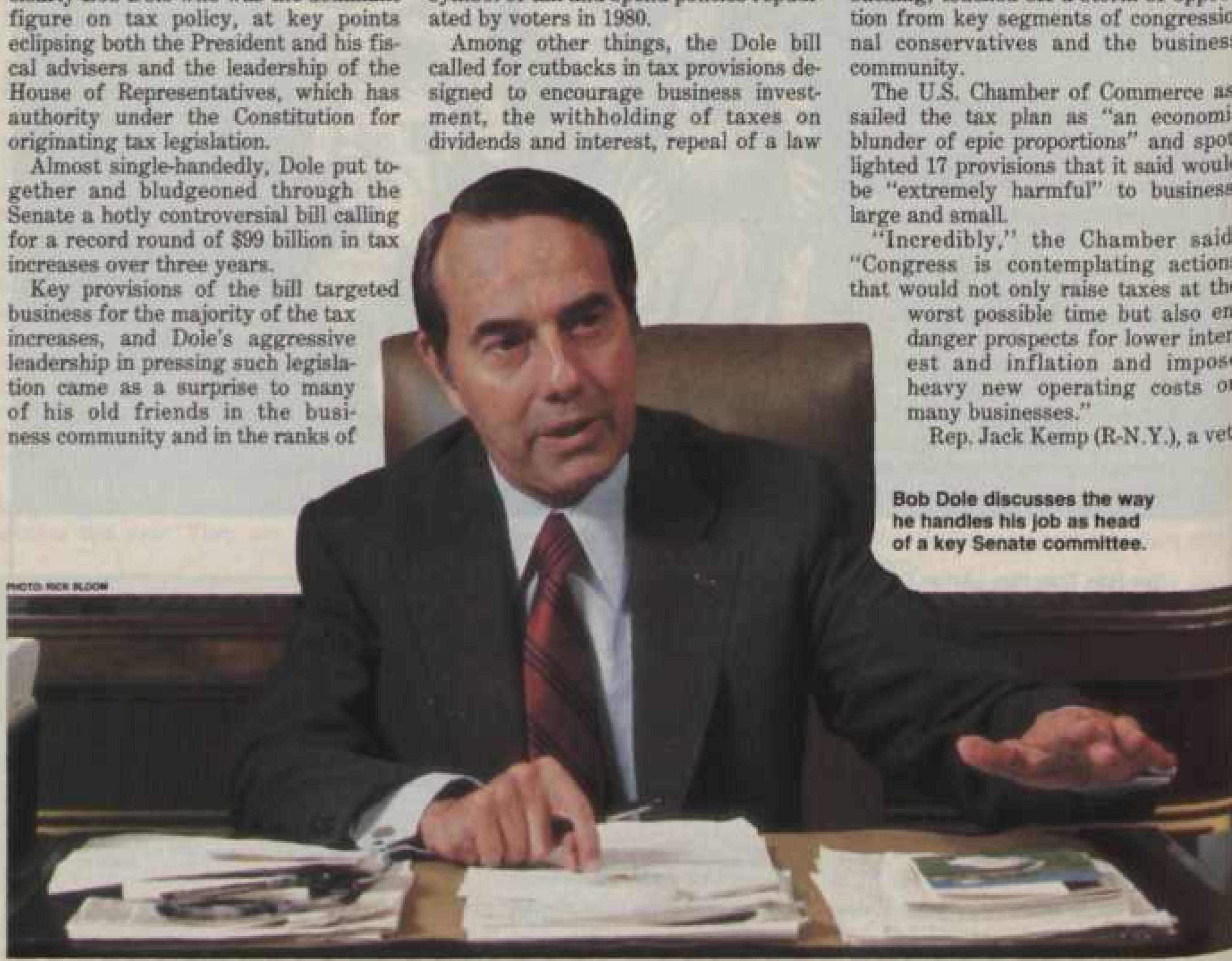

PHOTO: RICK BLOOM

Bob Dole discusses the way he handles his job as head of a key Senate committee.

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eran leader of the supply-side movement that triumphed in the fiscal battles of 1981, viewed the tax increase plan as a major retreat from policy gains conservatives had made only a year ago.

"The country, in its depressed condition, simply cannot stand up to such a dramatic tax increase," Kemp said.

He argued that steps to restrain federal spending and increase employment were needed to bring down the budget deficit.

"A tax increase serves neither purpose," the congressman declared.

Rep. Newt Gingrich (R-Ga.) spoke for many conservatives in asserting that they had an obligation to oppose the tax increase.

He was elected, he said, to help "cut spending, cut taxes and bring government spending under control."

Gingrich said he considered himself part of a team that made progress last year in "creating an America where businesses and individuals had maximum incentive to work, save, invest and create new jobs."

Norman B. Ture, who recently resigned as undersecretary of the Treasury for tax and economic affairs, expressed concern over a move away from supply-side economics through "the largest peacetime tax increase ever."

Said Ture, "There is no question of the change in tax direction that has occurred in the last several months, and I'm bitterly opposed to it."

There was widespread speculation in Washington about Dole's motivation in pressing for the record tax increase bill just a year after Congress voted record tax cuts.

The cuts were considered a major element in the supply-side formula for increasing company and individual productivity through increased incentives.

Some observers said Dole, who was President Gerald Ford's vice presidential running mate in 1976 and sought the GOP presidential nomination for himself in 1980, still nurses presidential ambitions and is sensitive to allegations that the 1981 tax relief plan favored corporations and upper-bracket taxpayers.

His 1982 tax plan, those observers said, could have been fashioned as part of a long-range strategy: He would go before voters with a built-in defense against assertions that he was committed to tax policies that favored the upper income brackets.

And what is the outlook for future tax policy under Dole's leadership of the Senate Finance Committee?

An interview with the senator produces mixed signals.

Asked what American business

needs to return to economic health, Dole says: "Well, I think they need the tax [reduction] program we passed last year. They also need a period of stability, where they can be confident that we're not going to go back and change things."

Conscious of the fact that his remark might seem odd in the light of this year's upheaval over tax changes, he quickly adds:

"To those who say we're changing a lot, we really changed only two provisions in last year's tax act."

NEITHER Dole's position that the changes are minor nor his claim that his tax bill would close "loopholes" and improve compliance has had much weight in selling the plan to the public.

A Gallup poll taken shortly before the vote on the bill showed that 66 percent of the public would advise their representatives in Congress to vote against it, and only 21 percent would recommend a vote in favor. The rest had no opinion.

On the question of what ways should be used to reduce the federal deficit, 50 percent said the answer was to cut spending and only 4 percent recommended higher taxes.

Twenty-two percent spoke out for both lower spending and higher taxes; 15 percent were against both of those steps.

Once the current controversy is behind his committee, Dole believes, priority issues will include a look at the flat-rate tax concept.

Under that plan in its purest sense, all taxpayers would pay the same percentage of total income, and there would be no exceptions, deductions, credits or other allowances.

Bills pending in Congress on a flat-rate tax make some provisions, however, for exemptions and deductions. Under some proposals there would not be one flat rate but several in broad income brackets.

Dole says he favors the flat-rate concept, but he doesn't think Congress will go as far as adoption of such a tax plan in its basic form—a single rate against gross income.

"We are a long way from having a flat-rate tax," he says. "The more people learn about it, the more questions will be raised. What income do you include—Social Security? Disability payments? Railroad retirement? And are there going to be any deductions, any exemptions or credits?"

He notes that some present bills that purport to specify a flat-rate tax really do not.

But, he says, the Finance Committee staff is reviewing all pending measures, and he plans to have a measure of his own—"sort of a working document"—to use when the committee holds hearings this fall.

Another possible area for committee consideration: elimination of the corporate tax.

"I don't disagree with that," Dole says. "I've heard President Reagan say pretty much the same thing. If corporations are effectively using their capital and are effectively passing on profits to the shareholders, then there isn't any reason you should tax corporations. Maybe we'll address that in the flat-rate hearing."

While offering such ostensibly reassuring previews to the business community, Dole can adopt a hard line in response to business criticism of his role in the current controversy over record tax increases.

Asked about the wisdom of his proposal to restrict the accelerated cost-recovery system designed to stimulate business expansion, he says:

> "The country . . . simply cannot stand up to such a dramatic tax increase."
> —Rep. Jack Kemp

"We went overboard [in the tax legislation enacted last year]. So we're trying to correct that. The business community shouldn't complain when we're cutting food stamps, Medicaid and programs that impact on the poor, that we're taking away that little surplus—their subsidy over their costs."

And Dole says the Senate Finance Committee plans continued scrutiny of the tax code: "We're going to keep looking around for ways to improve the tax system."

THAT'S THE formal basis for the legislation that has been widely attacked as a threat to the future success of the supply-side policies enacted last year and that has put Dole at odds with business and with many of his own GOP colleagues.

One of the most ironic developments in the sharp dispute over the Dole bill was the comment in one of the chief organs of the liberal movement, *The New Republic*, which asked in an editorial supporting the measure:

"Who would have thought that Sen. Bob Dole, bad-boy Republican vice presidential candidate in 1976 and co-perpetrator (with President Reagan and the House Democratic leadership) of the rich people's tax bonanza of 1981, would emerge as the loophole-closing hero of 1982?"

Who indeed? □

The Metric System Is . . . Er . . . Inching Forward

ILLUSTRATION: WILLIAM COULTER

It isn't making headlines, but conversion to the metric system is quietly becoming more and more widespread in the United States. Although old habits may be hard to change, the dictates of economic efficiency are gradually spurring metric conversion by businesses determined to stay competitive in an almost entirely metric world.

This process of going metric—metrication, as it's called—has not been meeting the kind of public resistance some business leaders feared. Cheryl Cummins, vice president of the American National Metric Council, believes that Americans face metric measurements every day without feeling disoriented. A football field measures 100 yards, and an Olympic dash is 100 meters, but Americans don't seem to have any problem crossing from one system to the other. Many consumer products are fully metric: cameras, cigarettes, pharmaceuticals, wine and spirits, for example. Almost all packaged food is now labeled in metric as well as English units, and nutritional information is entirely metric. "I haven't heard any big backlash of consumer complaints," says Cummins.

The ANMC, a private, industry-supported group that operates as an information clearinghouse and a coordinator for metric conversion, is trying to eliminate real and perceived obstacles to metrication in the business world. According to Cummins, one of the biggest tasks is changing regulations that inadvertently obstruct metrication. Many trade regulations give specifications only in English units and are perceived by business as impediments to metrication. Some executives remain wary because of possible antitrust litigation, since efficient metrication usually requires consultation and collaboration among businesses in an industry. Experts, however, say careful planning can minimize this risk.

In other countries, notably Britain and Canada, metrication has been forced and rapid; the United States has proceeded at a slower and presumably less costly rate. The Metric Conversion Act of 1975 established a national policy of voluntary metrication and left primary responsibility to the private sector. Government's role was confined to coordinating activities and distributing information. No deadlines were set, and even the possibility that some industries might never fully convert was found unobjectionable.

The act also established the U.S. Metric Board, which began functioning in late 1978. The board, which was intended to carry out a broad program of planning, coordination and public education, is suffering under the current budget crunch. The administration proposes phasing it out in the fiscal '83 budget and shifting responsibility for support of voluntary metrication to the Commerce Department's Office of Productivity, Technology and Innovation. The office would get seven new staff members and $300,000 to spend in that capacity. (The U.S. Metric Board had 35 people and $2 million in the 1982 budget.)

Although he wants to eliminate the board, the President supports voluntary metric conversion as a way to help U.S. firms in world markets.

Some manufacturers are more committed to metric transition than others.

General Motors is among the many businesses that deal heavily in the international market and thus have a strong incentive. GM initiated a 10-year conversion plan in 1973. "We thought we could change the whole business in 10 years," says Edward J. Streichert, a specialist in metrication at the GM Technical Center. "We won't make that goal, but we're doing pretty well."

GM cars are now all designed metrically, and at least 90 percent of the components are also metric, according to Streichert. The changes have occurred gradually. To minimize the cost of conversion, metrically measured designs were implemented only when parts were scheduled to be redesigned. Other GM divisions—trucks, for example, whose designs change more slowly—have been slower to convert.

Another example of a smooth metrication is the conversion of gasoline pumps from gallons to liters. Currently, 18 percent of gas stations nationwide sell gas by the liter. Converting gas pumps became an issue in 1979, when prices per gallon rose over a dollar and could not be registered on old equipment. Measuring by the liter was a solution many Shell, Amoco and Sunoco stations adopted. The companies offered explanatory leaflets and pocket conversion charts so that customers would not be confused.

Other plans for metrication have been too sudden and too overwhelming. In 1977 the Federal Highway Administration announced plans to add kilometer distances to all highway signs and eventually drop mileage altogether. Public opposition was so vocal that the plan was quickly canceled.

In the same year, the National Weather Service got a similar reaction when it announced plans to report temperatures in degrees Celsius, barometric pressure in millimeters and wind speeds in kilometers per hour. Although the service is gradually changing its instruments, weather reports won't go metric until the public has decided it wants them that way. □

—John de Ferrari

Left to right: Milton L. Drewer, Jr., president and ceo; Wm. J. Fauver, exec. v.p.; Robt. H. Hawthorne, v.p., corporate banking officer; Marcia M. Helms, v.p., corporate banking officer.

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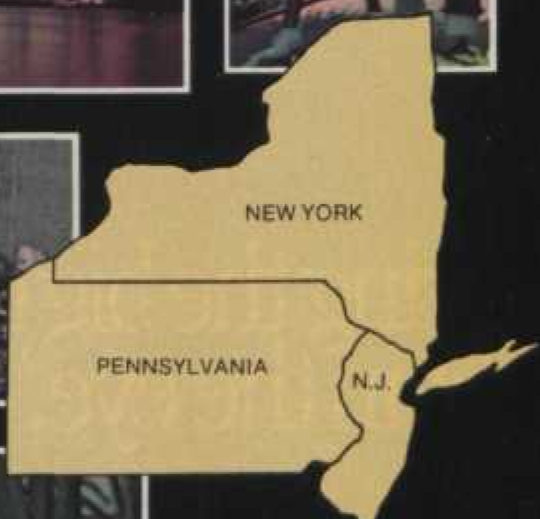
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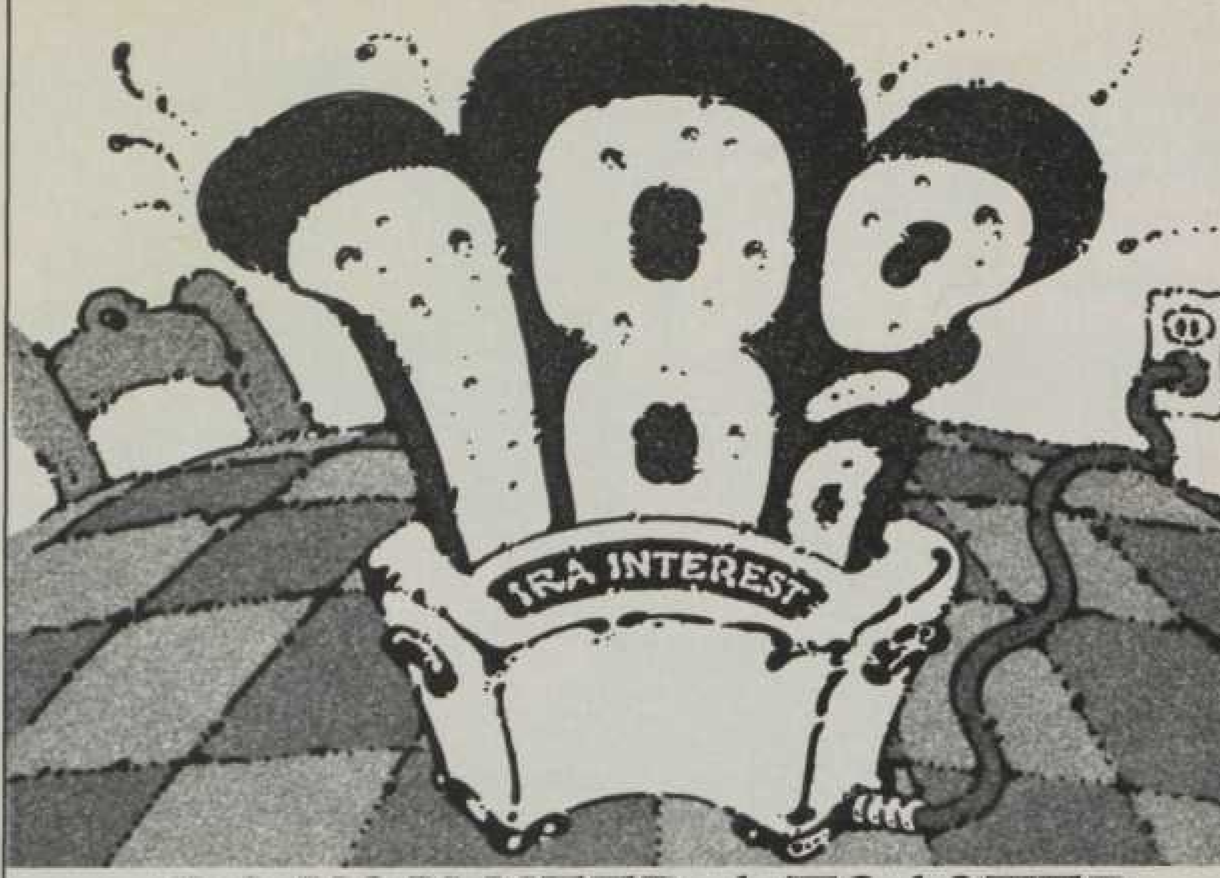

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Double-Edged Sword

A move to further safeguard the weekend warrior's job could deprive him of a job in the first place.

TRADITIONAL business support for the National Guard and Reserve forces could soon be tested. A bill pending in Congress would quadruple the amount of time guaranteed to employes to fulfill their part-time military obligations.

Currently, employers must hold open the positions of Reserve and Guard members who leave their jobs for military training as long as they are not gone more than 90 days in three consecutive years. A proposal before Congress would extend that period to 12 months.

The bill, sponsored by Rep. G.V. Montgomery (D-Miss.), has broad congressional and administration support. But if it becomes law, it could be a mixed blessing for Guard and Reserve members.

"Who would hire them to begin with?" asks Warren Stumpe, a vice president of Rexnord, a Wisconsin-based manufacturing firm that numbers guardsmen and reservists among its employes. A lot of other people, including Lt. Gen. Lavern Weber (Ret.), former chief of the National Guard Bureau, also believe such a law would discourage employers from hiring weekend warriors.

"Many employers are eager to help individuals fulfill their training requirements, but quadrupling the time that a person has a right to be away from his civilian job could be a barrier to employment," says Air National Guard Lt. Col. B.L. Van Brunt, assistant secretary of Wisconsin Power & Light Company.

The limit of 90 days in three years is considered adequate for the vast majority of the more than 900,000 Reserve and Guard members, who typically spend weekends and two summer weeks training and performing various maneuvers. But each year about 6,000 attend technical schools that require lengthy stays. For example, undergraduate pilot training takes an average of 300 days, and in fiscal '83 about 450 members will have a chance to attend.

PHOTO: ALCOA

Jack Williams now leads a double life as a photo lab technician and a Tennessee Guard mechanic. But without business' support, the Guard and Reserves would suffer.

"Most informed employers will take into consideration the legitimacy of the request and try to give the employe the required time off," says Edward J. Philbin, deputy assistant secretary of Defense for reserve affairs. "The problem arises when the employer lets the individual take additional active-duty training and then fails to reinstate him."

That problem exists even with the current law. The Labor Department interprets 90 days as what an individual can "reasonably expect" of an employer. Recent court cases have upheld Labor's guideline and backed employers who did not reinstate workers.

"We have an obligation to protect business interests, too," says the Labor Department's Ronald St. Cyr, deputy assistant secretary for labor management services. "Until a law comes along that specifies something else, we will stick to our interpretation."

Labor's interpretation, argue proponents of the Montgomery bill, fails to recognize that training has changed.

Some 100,000 members of the Guard and Reserves are subject to immediate mobilization for 90 days without a declaration of national emergency. Certain units are assigned to the rapid deployment force and would be among the first airlifted to a trouble spot.

"The total force concept that began as an idea in the early 1970s is now a reality that requires the commitment of Guard and Reserve forces as equal partners with regular military units," says the Pentagon's Philbin. "For that reason, never before in the history of the Guard and Reserves has ongoing training been so important."

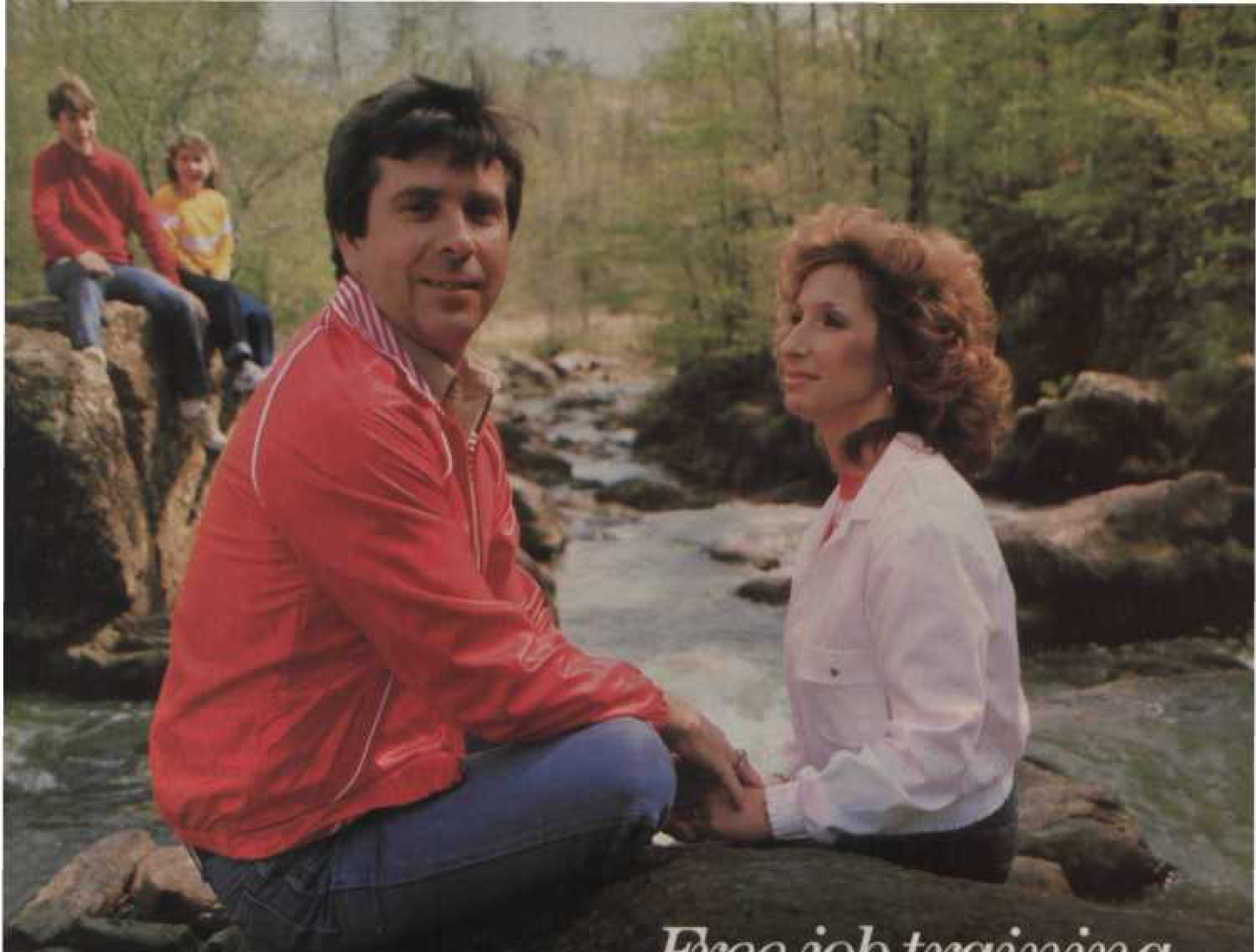
—Tony Velocci

The Changing Of The Guard

The National Guard and Reserves are assuming an increasing share of the military's defense commitment.

Nearly 40 percent of America's 3.4 million military personnel are members. More than a third of the Army's combat divisions and more than half of its armored cavalry regiments are Guard units. A fourth of the Marine Corps' total combat strength in air and ground units is in the Reserves.

More than half of America's air defense—and all of Hawaii's—is entrusted to the Air National Guard. The Air Guard provides a sizable portion of the Air Force's aerial refueling capability, including a 24-hour alert for support of the Strategic Air Command. One of two Naval Reserve carrier air wings is kept deployable.



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How To Get More From Your Business When You Leave It

Tax benefits increase the importance of planning now.

By Richard F. Monaghan

ILLUSTRATION: TONY FITCH

MANY sole or majority owners of companies don't give much thought to what will happen to their firms when they leave. This can be a grievous error.

Some of these executives will die before retirement, and their businesses may wither on the vine or fall into unsuitable hands. When the owner of 50 percent of the stock of a successful cheese-importing business unexpectedly died, the business was worth more than $1 million. His wife, who owned the other 50 percent of the stock, lacked the knowledge and interest to carry on, and her husband had not picked a successor or planned for disposing of the business. Without anyone to run the show, sales began to sag. Only through the aggressive efforts of the husband's executor was the firm at last sold to a competitor at a fair price.

By not planning ahead, other owners may cause such problems as an inadequate income during retirement, enmity among friends or relatives who remain connected with the business, and improper valuation of the business, resulting in unnecessarily high estate or gift taxes.

Always important, preparing for the disposal or continuation of a closely held business became even more so because of the Economic Recovery Tax Act of 1981, which offers estate and gift tax benefits to those who have planned ahead. Even if you have already arranged for your successor, you will have to transfer your ownership interest. This means you should know about the various transfer methods, including sale for cash, corporate reorganization coupled with a redemption of stock or sale for cash, an outright gift, and a buy-sell arrangement with family, other insiders or outsiders.

RICHARD F. MONAGHAN *is a vice president and manager of the estate and trust administration department of Irving Trust Company, New York.*

Sale for cash. This transaction is simple. You convert an illiquid asset to cash, and your profit is taxed at capital gains rates. Settling on this kind of transfer can cause problems, however.

If you sell to a relative, the Internal Revenue Service may challenge the deal as a less-than-arm's-length transaction and thus an attempt to lower your tax below what would be due if you had sold to someone else. This could also cause eventual estate or gift tax problems. Moreover, it may be difficult to find a buyer willing to pay a large amount of cash or make the purchase in installments over a long period.

Would it be better to sell the stock in your company or to keep the stock and have the company sell its assets? Tax laws governing either plan are intricate.

If you sell the assets and retain the stock, you can let the buyer take the corporate name and any goodwill. If the buyer does not take these intangibles, he will pay less for any real estate the corporation owns and its other tangible and intangible assets, including patents, trademarks, licenses and royalty rights. After the sale you liquidate the remaining shell—the corporation's legal entity—by distributing the sale proceeds to the stockholders.

To avoid a possible double tax, you can liquidate under Section 337 of the Internal Revenue Code—a "quickie" liquidation accomplished within 12 months of the date the plan is adopted. With certain exceptions, the corporation recognizes no gain or loss on assets it sells during this period. Taxable gain or loss is recognized by stockholders at the time of liquidation.

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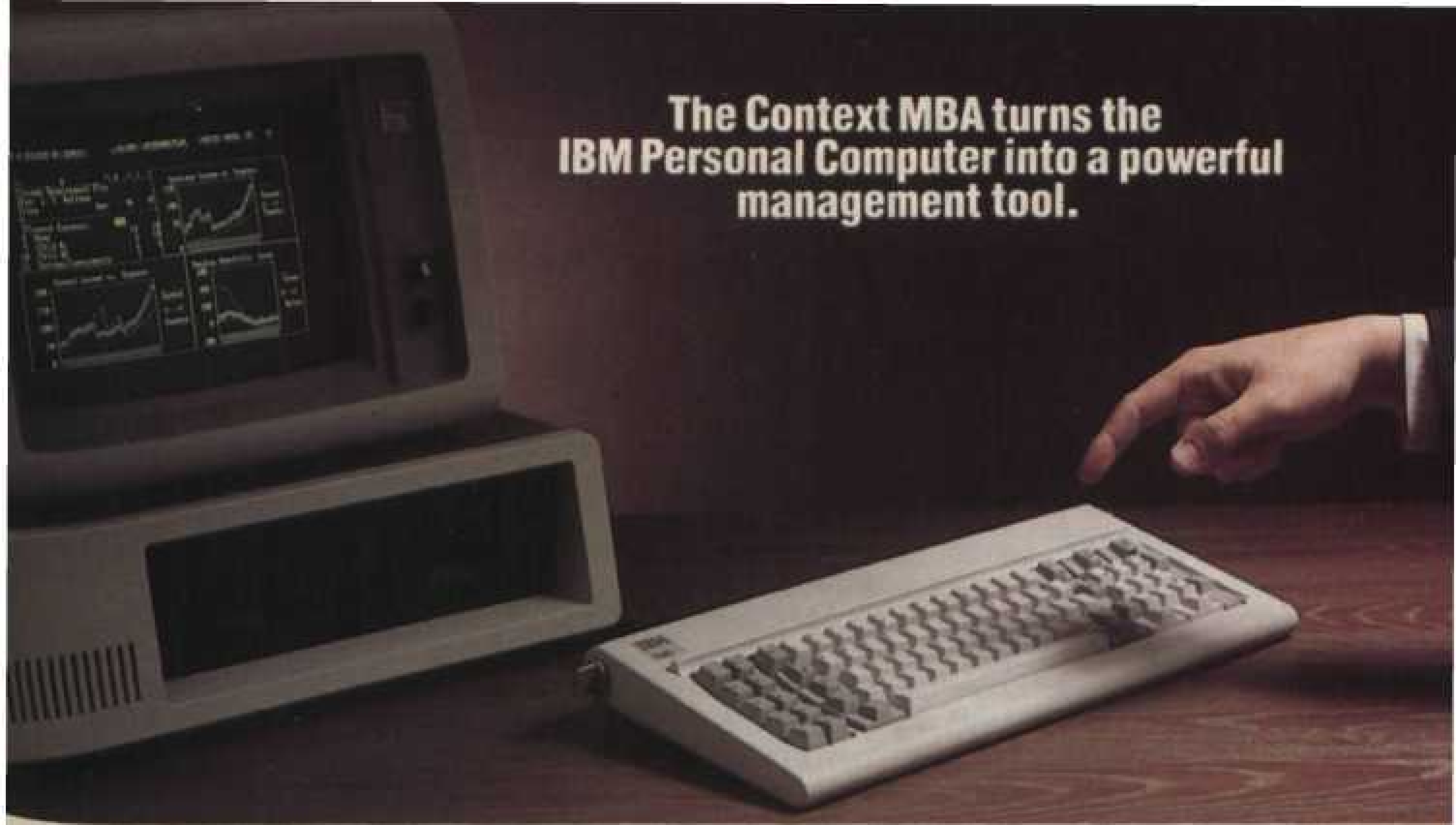

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For example, a dramatic 37 percent growth in 1981 encouraged Piedmont to open a Mid-Atlantic Reservations Center. Washington's sophisticated long distance phone system immediately attracted the airline to this area. However, it was Reston's campus-like environment that won out over the distractions and pressures of a downtown location.

TANDEM COMPUTERS

Here, companies conduct business from offices overlooking golf courses, beautiful homes and literally thousands of trees. Tandem Computers was impressed with the work environment Reston offers. After all, Tandem's emphasis on a positive business atmosphere has been a major factor in helping them maintain one of the lowest turnover rates in the high tech field.

Advanced Technology

The same type of success has been shared by Advanced Technology, which after only five years in business joined INC. magazine's list of the top 100 fastest growing, privately held companies. While Reston's aesthetics played a role in the firm's decision to locate here, the available, high quality work force was the conclusive factor.

In fact, the area labor market is in excess of half a million people with a healthy percentage qualified for professional and managerial positions.

Litton

In addition, you'll discover more engineers and computer specialists here than anywhere else in America. So it's not surprising a company like Litton Computer Services would want to locate amidst this high concentration of brain power. And move to a business and residential community that has a reputation for attracting the very best minds.

SPERRY

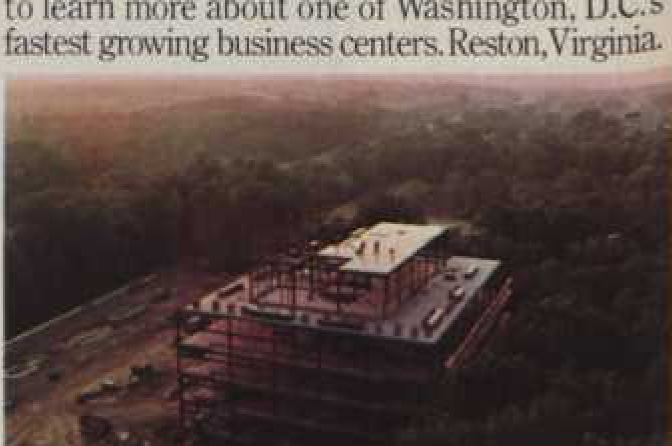
For many high tech corporations and other firms, the most attractive aspect of Reston is its close proximity to Capitol Hill. For instance, Sperry is well aware the Federal Government spends nearly $30 billion annually on electronic systems and equipment. By locating here, Sperry positioned itself only 18 miles from where the contracts for such goods and services are awarded.

ARTHUR YOUNG

Obviously, before a company moves, it considers the accessibility of the new location to its markets. Arthur Young & Company did just that before moving to Reston. And their market is the world.

In fact, this professional service company has 11,000 employees in foreign countries and 7,000 in the U.S. But with Dulles International Airport 5 miles from here, and National Airport just a bit further, no employee is more than a few hours away from the firm's Educational Services Headquarters in Reston.

Of course, our corporate roster features more than just six businesses. There are over 500 highly successful firms benefitting from the advantages Reston has to offer. If your company is preparing to relocate, the smartest move you can make is to learn more about one of Washington, D.C.'s fastest growing business centers. Reston, Virginia.



RESTON, VIRGINIA

Write in confidence to Marketing Director, Reston Land Corp., 11800 Sunrise Valley Dr., Reston, VA 22091. Or phone (703) 620-4730. A Mobil Company

stock sale entails a shift in control of the enterprise, you may need to recapitalize or reorganize the business to make the change in management acceptable to the buyer. You may make such a recapitalization with relatives, other executives or another corporation.

Most such transactions are made under Section 368 (a) (1) (E) of the Internal Revenue Code. You, the owner, exchange your common stock for a preferred stock your company issues. The buyers retain any common stock they have and purchase the rest from the corporation.

The preferred stock has a fixed redemption value and pays a substantial dividend, presumably giving you a good retirement income. The fixed value of your preferred stock ensures that if the corporation appreciates in value, the increase will not be included in your estate.

If you sell your company, consider holding on to its nonoperational parts, such as real estate, in separate corporations. You would thus retain some assets that might prove valuable later. You can do this in one of three ways:

- *Split up* your corporation, forming two or more new corporations and taking their stock in exchange for your present holdings.
- *Split off* part of your corporation, transferring some assets to the new corporation and exchanging part of your stock for its stock.
- *Spin off* part of the corporation. This is the same as a split-off except that you receive additional stock without surrendering your present holdings.

For tax purposes, you enjoy no gain and suffer no loss after the reorganization—assuming that the split-up, split-off or spin-off is not a device for distributing earnings or profits but has a valid business purpose.

Outright gift. The advantages of this method of transferring ownership are enhanced by the Economic Recovery Tax Act of 1981. The unified transfer tax credit will increase from $62,800 this year to $192,800 in 1987. You can apply this credit—equivalent to the gift tax on $225,000—against your gift, exempting $225,000 of its value from taxation this year. This figure will gradually rise to $600,000 within five years.

If you give the business to your spouse, you can take an unlimited gift tax deduction. You can give up to $10,000 a year in stock to each of any number of individuals without incurring tax liability. If your spouse agrees and signs Form 709, the tax-free gift to each recipient could amount to $20,000 yearly.

Assuming you retain some of the business, any future taxable gifts you make will benefit from the decline in the maximum gift tax rate from 65 percent this year to 50 percent in 1985.

Legislation has also eliminated a rule that said gifts within three years of the giver's death were made in contemplation of death and were therefore includable in the giver's gross estate.

There are other benefits to making a gift: You can advise the recipient about the business and thus provide for orderly transfer of power, and you don't have to lay out cash. But gifts have their drawbacks. You receive no current monetary benefit. You might be subject to substantial taxes on the state level if your state doesn't amend its gift tax laws to conform to federal laws. And every time you give away closely held stock, you should have a new appraisal, which can be expensive.

Buy-sell agreements. This method lets you retain ownership of your business until you retire, become incapacitated or die. The agreement gives the company or other shareholders the right to buy your shares, which might otherwise be sold to outsiders.

Such an agreement includes a pricing formula. If you become incapacitated, the shares will be sold according to the formula, and the company can operate without interference from family mem-

bers or others. Everything is arranged ahead of time, while you can still negotiate from strength.

A buy-sell agreement has other benefits. It relieves your family or estate of the burden of running the business. It converts stock, which is illiquid, to cash. It establishes the stock's value for estate and gift tax purposes. And it lets you fund the entire purchase price with life insurance: The company or other shareholders can take out a policy on your life (or possible incapacity) and be the beneficiary of the policy.

Buy-sell agreements come in three types. One is known as a cross purchase: Shareholders agree to buy some or all of the stock of other shareholders. The second is called a corporation redemption: The company agrees to buy the shareholders' stock. The third is a hybrid: The company may redeem some or all of the shareholders' stock, and the shareholders may buy any left over.

A cross purchase offers advantages in addition to its general advantages as a buy-sell agreement. Even if the sale is made to another shareholder on the installment basis, you will have the security of knowing he is personally liable for payment. Furthermore, the price the buyer pays becomes his tax basis, which is likely to be beneficial to him and make the deal more appealing.

What are the drawbacks? If the price is funded through life insurance, the premiums are not tax deductible. It can be difficult to keep track of stockholders' policies and premium payments. Finally, because the buy-out price is determined by formula, the buyer may have to come up with a large sum if the insurance doesn't cover the purchase.

The plus side of a corporate redemption is that it's simple. And if the cost of the buy-sell agreement is funded by insurance paid for by the corporation, the proceeds the corporation receives upon the seller's death (or incapacity) will not be taxable. The estate may sell to the corporation enough of the owner's shares to pay his estate and inheritance taxes, plus allowable funeral and administrative expenses, and it may treat the proceeds as a capital gain. However, the rest of the redemption might be considered a dividend by IRS and thus subject to ordinary income taxes.

On the minus side: The tax cost basis remains the same for other shareholders. And creditors might be able to seize the insurance proceeds.

In the mixture of cross purchase and corporate redemption, the estate may sell to the corporation enough shares to pay the owner's taxes, funeral costs and administrative expenses, and it may treat the proceeds as a capital gain or loss. In contrast to a corporate redemption, the estate may sell the remaining shares to other shareholders, again at a capital gain or loss, and the proceeds will not be treated as ordinary income.

NO MATTER HOW you dispose of your business, the way you value it will be of great importance. To see whether you made a fair valuation, IRS will look at many factors: the national economy and the outlook for it; the nature, history and financial condition of the business; the book value of its stock and any adjustments made to that value because of obsolescence, depreciation, contingent liabilities, inflation and the like; the company's earning capacity; its dividend-paying capacity as opposed to actual payouts; its goodwill and other intangibles; its prior sales of stock, if any; and stock prices of similar corporations traded on exchanges.

Obviously, valuation is a complex matter. For this reason alone, you will need help from attorneys, auditors and perhaps other experts in disposing of your business. The important point to remember is that you have several options. Which option is best depends on your circumstances and on your wishes for yourself and your company. □

To order reprints of this article, see page 74.

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Rugged Individualism in Knives

By Robert T. Gray

AN ARMY OFFICER wrote to the Randall Made Knives company during World War II that he admired its products. "I have become your personal representative, and I hereby submit two more orders," he said. The writer was Army Air Corps Capt. Ronald Reagan.

Astronaut Virgil Grissom made a special trip to the company's Orlando, Fla., factory for a knife "to replace the one I left on the bottom of the sea." (It went down in 1964 in his space capsule, which was swamped by waves and sank moments after he had climbed out.)

Pictures of Gen. William Westmoreland showed a sheathed Randall knife on his belt during his service as commander of U.S. forces in Vietnam.

Devotion to Randall knives is widespread. Thousands of testimonials have poured into the Randall factory in the 45 years since W.D. Randall, Jr., first made a knife from an automobile leaf spring in his home workshop in Orlando. Like that knife, every knife produced in the factory is handmade.

The testimonials praise the knives for ruggedness and high quality. Many are from hunters and fishermen, with whom the knives are highly popular. A college president called the knives works of fine art. An air-rescue crewman once used a Randall knife to pry open an airplane canopy, then to cut through the harness holding a crash victim and finally to perform emergency surgery.

Randall knives are displayed in the Smithsonian Institution in Washington, New York's Museum of Modern Art and other museums around the world.

They have been featured in virtually every major publication on the outdoors, mentioned in novels and portrayed in adventure comic strips.

Ordinarily, that kind of worldwide recognition and acclaim would be translated into high-volume sales.

The demand for the knives is there all right, but the first thing a purchaser needs is patience. An order now reaching the plant—a small, one-story cinder-block structure—will be assigned a delivery date in May of 1985.

And there's no point in trying to move ahead in the line. "It's strictly first-come, first-served," says Gary T. Randall, who now runs the company

Gary Randall, who says each of his firm's knives has its own personality, watches an employe work on a blade.

founded by his father. The elder Randall, at age 72, is still active in the business and sends 40 handwritten letters a day in response to customer inquiries or testimonials.

A customer can rest assured that "his order is not going to be laid aside while someone else's is being filled," the younger Randall says.

One way to deal with the backlog, of course, would be a substantial increase in production, now only 110 knives per week. But the Randalls, father and son, are firmly committed to maintaining the process followed since the company was started.

"These knives will never be mass-produced," says a company policy statement. "Knives of this quality can be made only by patient handcrafting."

The company catalog offers 24 basic models. But with variations in blade length, style and material of handle and hilt, type of butt cap, ornamentation and other details, there are well over a million possible combinations.

Prices range from $100 to $150 for standard models. Many buyers pay more for custom features.

The Randall work force of 13—there is rarely an opening—begins the knife-making process with a length of imported Swedish tool steel or high-carbon domestic stainless. Blacksmiths heat it cherry red, and the first rough form of the blade is hammered out on an anvil.

The blade then goes through a series of grinding and tempering steps. Material for the handle is taken from one of dozens of bins of walnut, maple, rosewood, stag, Micarta and other materials. Hilt and butt are attached, and the knife undergoes a series of final polishing steps.

THERE IS LITTLE WORRY about industrial espionage at the Randall plant—step-by-step instructions for making a high-quality knife appear in the sales catalog.

Each knife his company turns out has its own personality, Gary Randall says. "I can look at a knife and usually tell who worked on it. We don't work from patterns, and there are subtle differences that show up in the final product—differences that mark that blade forever as the work of one individual."

The first Randall knife resulted from the effort of the elder Randall to duplicate a knife he had seen on a fishing trip to Michigan.

A friend admired the knife he made and received it as a gift. That led to requests for similar knives. Demand kept growing as news of the knives spread by word of mouth among the hunting and fishing fraternity.

Business was not new to the elder Randall. He and members of his family were—and still are—involved in large-scale citrus, cattle and real estate operations. He realized the knives offered a business opportunity, and he took it.

His and his son's pride in the company's success is heightened by the fact that they have shown there is still a market for a high-quality product made painstakingly by hand.

There is no better evidence of the strength of that market, they believe, than that customers are willing to wait nearly three years for special knives with "Randall Made" etched into the blades. □


BizNet™

Curbing Auto Theft By the Numbers

PHOTO: BRETON LITTLEHALES

Untraceable auto parts from stolen vehicles are big profit items and thus a primary reason for the high number of car thefts.

IN THE PARLANCE it's called a chop shop. And the chances that the family car will end up in one keep increasing.

Not by choice, of course. By theft.

Stealing cars is one of the sweetest businesses going in this sour economy. Profits are astronomical—an estimated $3 billion a year. And the risk is minimal—only 14 percent of the thefts result in arrest and only 1 percent of those arrested are convicted.

In 1980, the latest year for which figures are available, a record 1.1 million vehicles were stolen. Half of them were driven right into chop shops, illegal torch-and-cut garages where two men can disassemble a car in 40 minutes. Parts are passed along for sale at almost pure profit.

The situation has gotten so bad that a nonprofit group called the Coalition to Halt Automotive Theft was organized in 1979. Representing insurance and automotive repair industries, automotive dismantlers and recyclers, law enforcement agencies and car owners, the coalition lobbies from a Washington office for federal auto theft legislation.

What it wants is simple enough—permanent identification numbers on major car components.

"The demand for and the price of auto parts are increasing rapidly as new-car prices go up," explains Russell F. McKinnon, coalition chairman. "If the principal resale items—such as doors and front-end assemblies—were numbered, law enforcement officials could identify, arrest and successfully prosecute auto thieves."

Auto manufacturers already stamp vehicle identification numbers on the engine block, transmission, cowl and frame. However, only Ford and General Motors stamp numbers on other auto parts and then only on their luxury cars.

McKinnon says, "A used door from a late-model vehicle will sell for $300 or more, and a front-end assembly may bring $1,500 or higher."

Many cars are stolen only for parts, which illegitimate parts dealers sell at below-market prices. Auto repairers buying the parts say they have no way of knowing whether parts are stolen. Without identification numbers, the parts are frequently impossible to

Is Your Car an Easy Mark?

Auto thefts occur every 28 seconds in the United States. They don't have to be that frequent; a car owner can help. The Automotive Dismantlers & Recyclers Association recommends the following measures to discourage car theft:

- Always lock your car, close the windows and take the keys.
- Don't leave an extra set of keys in a "secret" hiding place, such as in the ashtray, above the visor or under the floor mat. That doesn't fool a car thief.
- Always park in a populated, well-lighted area.
- Whenever possible, park in attended lots and leave only the ignition key (and do not leave a key on which your key code number appears).
- Lock packages and valuables in the trunk. Thieves sometimes steal cars just for articles in the car.
- Install an alarm or other antitheft device in your car.
- Don't leave your car running unattended to warm it up or to dash into a store, even if your children are in the car.
- Don't leave registration papers in the car unless you're required by law to do so.
- Be wary of buying an automobile or parts from anyone other than a reputable dealer, and never buy an automobile without a valid title.
- When selling your car, never let a stranger test-drive it alone.

trace, so the chop-shop operator goes undetected.

That is not to say there is no market for complete cars. For every car on the road there exists a vehicle title, which is turned over to the new owner when the car is sold. But in the case of a stolen car, a phony title may be produced, much like counterfeit money.

The fake title can then be used to sell the car or obtain license plates. Use of counterfeit titles has been increasing every year.

THEN THERE IS the matter of fraud. With a phony title, the crook can insure the car and then arrange for it to be "stolen" so that he can collect insurance money. In reality, the car may have existed only on paper.

Some authorities say car theft still represents one of the easiest ways for youths to become involved in crime. More than half those arrested for auto theft are under age 18. The teen-ager may be involved on his own, or he may be employed by professional theft rings to steal cars on order.

Testimony before Congress points to the effectiveness of an identification system, says the coalition. Former car thieves and chop-shop operators have told lawmakers they quickly disposed of a stolen vehicle's engine and transmission because the indelible vehicle identification numbers made the parts too "hot" and could link them with the crime.

Law officers report that most vehicles can be stolen in less than a minute with tools costing the thief under $50. They contend—and the coalition agrees—that organized crime is heavily into car theft, selling hot car parts, producing phony car titles, filing fraudulent insurance claims and transporting stolen cars and parts into Latin American countries for sale.

Legislation before both the House and the Senate requires that vehicle identification numbers be permanently placed on major components. Often called crash parts, they are the parts most frequently damaged in accidents and most in demand. The bill would require no more than 14 additional parts to be numbered; this limitation would keep the cost of the additional numbering under $10 per car.

Even so, the bill has not been well received by the National Highway Traffic Safety Administration. It contends the additional cost per car, multiplied by the millions manufactured each year, is too great a burden for today's auto industry. It also questions the effectiveness of such a system.

While the bill is being debated, a problem remains. Only 20 percent of stolen vehicles are ever recovered, and more people today are purchasing used cars, so the used-car buyer stands a chance of inadvertently getting a stolen car or one with stolen parts. To avoid that, the Automotive Dismantlers & Recyclers Association recommends checking the following:

- Is the vehicle identification number on the door panel plate loose, or are the rivets loose or other than original?
- Is the VIN plate a color other than flat black?
- Is the dashboard loose? Is the ignition switch excessively loose? Are there chisel or pull marks on the ignition switch?
- Are the door and ignition keys the original factory keys?
- Is the federal sticker missing, torn or not firmly attached? Have sticker numbers been tampered with?
- Do the dashboard VIN and the federal sticker door numbers match?
- Have other engine numbers been removed or tampered with?
- Do registration numbers, VIN plate and door numbers match?
- Is the seller too easy to deal with? Is he asking a price under the car's market value?
- Is the seller demanding immediate cash payment? Is he able to furnish proof of previous purchase? □

—Del Marth


PHOTO: MATTISON—GAMMA LIAISON

Feared for the economic havoc they can wreak, OPEC oil ministers are mired in internal squabbles.

The Petroleum Price Puzzle

An oil surplus seems to be shaping up. How long it will last is anyone's guess.

TRYING to make sense of the oil business has always been akin to reading Chinese tea leaves, but rarely have world petroleum markets been subjected to such pressures and confusion.

Some Middle Eastern members of the Organization of Petroleum Exporting Countries are ignoring production quotas set last March and are aggressively marketing their crude. At OPEC's July meeting in Vienna, attempts to enforce production ceilings collapsed. And continued fighting within the cartel over members' production limits raises a host of uncertainties, including the possibility of a price war waged by OPEC factions.

What the Saudi Arabians do is the key, since Saudi Arabia is by far the largest producer in OPEC. The Saudis may slash production further—they have already cut back by a third since the summer of 1981—thereby increasing their influence over world prices and supplies. Then again, they may step up production in an attempt to capture a larger share of the market.

The war between Iran and Iraq poses another unknown. Iran's production, about 2.2 million barrels a day, is second only to Saudi Arabia's 7 million or so. If that were suddenly curtailed, the significant reduction in the world supply would raise prices. Unless, of course, Saudi Arabia decides to make up the difference. You get the picture.

"Everything is in a state of uncertainty," says Walter Levy, an international oil consultant.

Energy analysts say there appears to be a gradual return to a surplus—not the glut that existed earlier this year—of oil supplies in the United States. With the nation still emerging from recession and with gasoline consumption this summer lower than expected, petroleum product stocks are plentiful. Conditions are tailor-made for a lowering of prices, says an expert at *Platt's Oilgram*, the bible of the international petroleum industry.

At the gasoline pump, prices have all but leveled off since mid-June, and in some places they have declined a cent or two. As of July, the average price of full- and self-service regular unleaded was $1.317, according to the *Lundberg Letter*, a weekly petroleum newsletter that regularly surveys gasoline prices.

Energy experts forecast an increase in oil imports during the fourth quarter of this year. For example, the Energy Department's Energy Information Administration predicts that imports will rise to more than 5 million barrels a day late this year, nearly a 35 percent jump over the average earlier in 1982.

Why the increase? First, government and petroleum industry experts still expect the economy to begin picking up in earnest between October and December. The only disagreement is on the pace of the upturn and exactly when it will occur. Second, the consensus is that lower prices will stimulate energy demand among consumers. And third, companies are expected to continue to stock heating oil.

Crude oil prices, at least in the short term, are expected to be relatively stable. Deputy Energy Secretary W. Kenneth Davis says the current price of $34 a barrel may not be surpassed for the next year or two. He adds, however: "Over the long term, we are still dealing with a finite resource whose price can only go up over time."

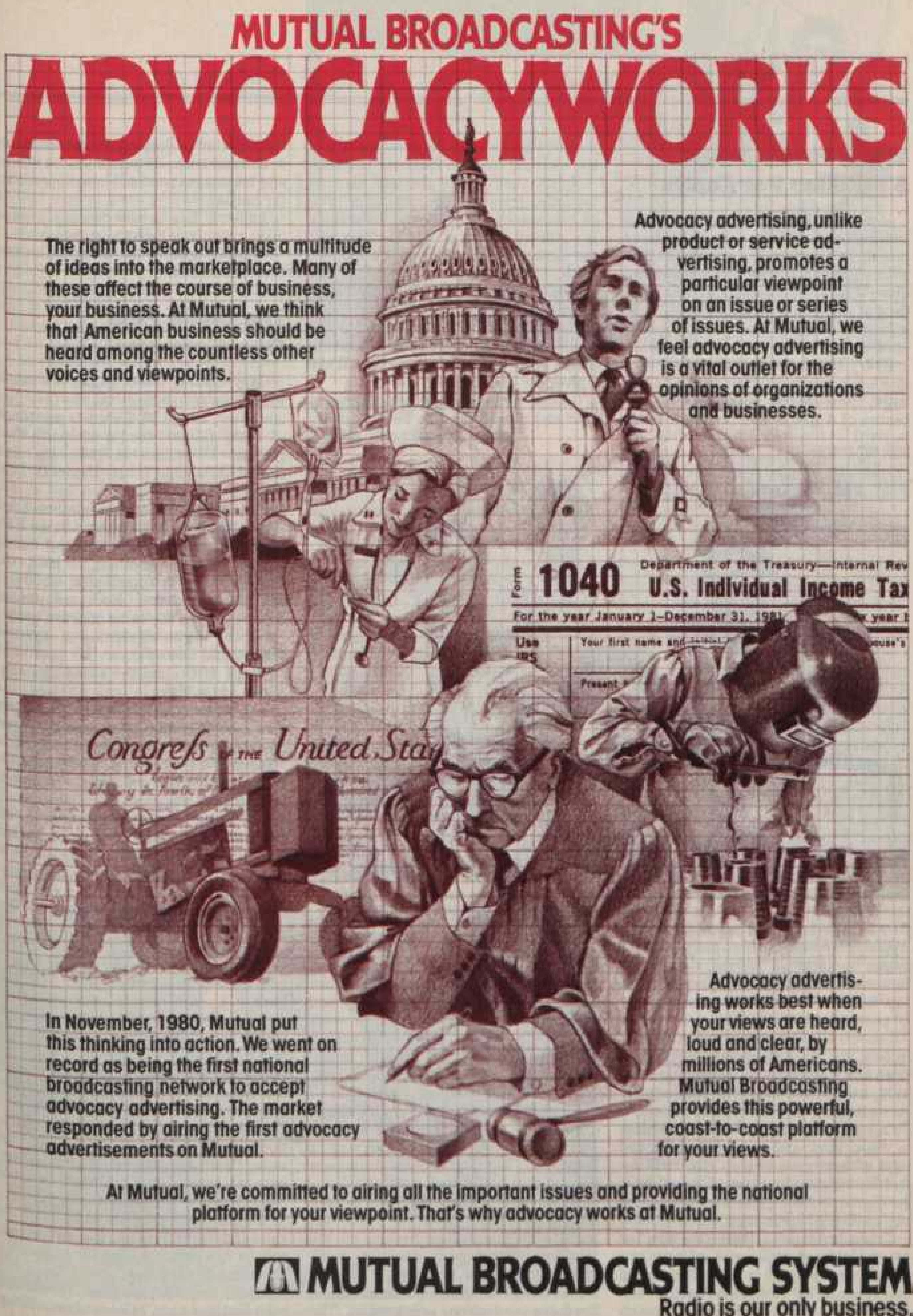
Harvard University political scientist Daniel Yergin, co-author of the 1979 best-seller *Energy Future*, warns that a devastating energy crisis could occur at any time. "People should not fall prey to the glut psychology," he says. "Unfortunately, people seem to have short memories."

Yergin insists that "oil shocks"—substantial disruptions in supplies—are likely to occur as long as consuming nations remain addicted to petroleum from the explosive Middle East. Indeed, only two months ago Arab oil ministers considered using their oil weapon to pressure the United States over Israeli military action in Lebanon.

ALTHOUGH the arrogance and power of OPEC have waned somewhat, energy experts say OPEC will continue to exert influence on the price and production of petroleum for years—just by the sheer weight of its output.

Suggests Yergin: If the oil producers could find the political will to curtail output sharply, a barrel of crude that now costs $34 could eventually more than double in price. He estimates that the previous oil shocks have cost the United States and its major trading partners a total of $1.2 trillion in lost economic growth between 1974 and 1981. In addition, he says, increased prices—in 1970, oil cost $1.80 a barrel—have doubled unemployment rates and nearly tripled the pace of inflation. □

—Tony Velocci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PEOPLE IN BUSINESS

Young Firm's Sales: $1 Million Per Capita

If you are a David among Goliaths in the highly competitive food business, how do you survive and grow? "Be first with a product and be able to turn on a dime," says Gordon Crane, 32, president of Apple & Eve, Great Neck, N.Y., a leading marketer of pure, unsweetened apple and apple-cranberry juices.

Every day, in food stores from Maine to Florida and westward as far as Chicago, consumers make 25,000 purchases of Apple & Eve products. Other firms market natural apple juice, but Apple & Eve claims first place when it comes to sales in the dairy case. Its total sales this year are expected to top $10 million—$1 million for each of the 10 people in the company.

Gordon Crane's career objective was to be a lawyer, but when he graduated from the University of Rhode Island in 1972, he elected to take a year off before plunging into law school. He started a natural food distribution company in New York and got hooked on the joys of entrepreneurship. By 1975 he had found what he thought would be a good prospect for supermarkets—natural, unfiltered apple juice.

Crane developed a distinctive logo for his product—an apple with a bite taken out of it—and with a capitalization of less than $3,000 contracted with a processor for a supply of juice. To reach retailers he hawked his product at 5 in the morning at area farmers' markets.

By the time he had obtained his first big order from a major retailer in 1975, he had enrolled at Hofstra University's law school. Apple & Eve's office was the Crane home, and Gordon's mother, Ruth, offered to sit in when her son was attending classes. Soon, however, it was a full-time job. Older brother Alan joined the firm to head up the sales effort, and younger brother Cary joined after studying marketing at the University of Buffalo.

Gordon Crane got his law degree in 1978 and passed the bar, but he applies his legal training only to the business.

Until recently Crane was the buyer for the firm, visiting apple growers from Georgia to New England, but now Apple & Eve has a full-time buyer and also turns to the spot market. Growers turn their apples over to pressing plants, which then ship the juice to one of two processing plants in New Jersey. There the juice is blended with that of other varieties of apples, or cranberries if a mixture, and packaged for Apple & Eve in glass jars, cardboard cartons or Brik Paks, the new aseptic containers that employ a cold-pack process.

Being small allows the firm to turn on a dime, Crane says. He points out that Apple & Eve was first to hit the market—by several months—with aseptic packaging for juice, a process that relies on flash pasteurization. Products need not be refrigerated. The rectangular packaging allows retailers to accommodate 30 percent more stock, and transportation costs much less than for bottles.

Apple & Eve is now testing a pure juice made from fresh vegetables.

"You've got to be first," Gordon Crane contends.

PHOTO: JAMES POZARICK

Gordon Crane (left), his mother and his brothers are challenging the giants of juice.

The Game Plan Of a Gamester

Gary Gabrel loved games so much while he was in college that he invented one. Now, at age 30, Gabrel is president of Pente Games, Inc., a company that grossed $3 million in 1981. He was named Oklahoma Small Business Person of the Year in 1982.

Friends introduced Gabrel, then a sociology student at Oklahoma State University, to two ancient Oriental board games, Go and Go-Moku, in 1973. Go exceeds chess in complexity; Go-Moku is relatively simple. Both are played with stones on the same board, a grid.

Gabrel began designing a version that would incorporate the profound strategy of Go and the speed and simplicity of Go-Moku.

At that time he was working his way through school at a pizza parlor, where he later became manager. "If friends came by, we'd play on the checkered tablecloths," he says. As they played, they refined the game.

But when he offered the idea to 10 leading manufacturers, he was turned down. So he decided to produce it himself. To do that, he needed a name and a border design. "I was looking for a design that would fit the nature of the game, so I was looking primarily at Oriental designs," he says. "But Oriental themes were not popular then because of the Vietnam War. In the library I came across a drawing of Achilles and Ajax, the boldest of the Greek heroes in the Trojan War, seated in full battle dress across a tabletop board game." The design would give the game the Western flavor he wanted, but he still needed a name.

"I compiled a long list of Greek gods, goddesses, place names and wars," he says, "but none seemed right." Then, with an appointment with a printer coming up, he turned to the dictionary. "I looked up the Greek word for *five*, since the object is to get five stones in a row or five captures, and Pente became the name of the game."

Production was tougher. "I worked with local printers," Gabrel says. "They

By Mary Tuthill

were patient with me. It was difficult because I wanted small quantities of a custom job, and it's hard for printers to do that kind of work profitably."

The games were sold mostly to friends and at craft fairs until 1979, when Gabrel incorporated and hired an employe. "The first profit came with the Christmas season of 1980," he says. And it has been steady ever since.

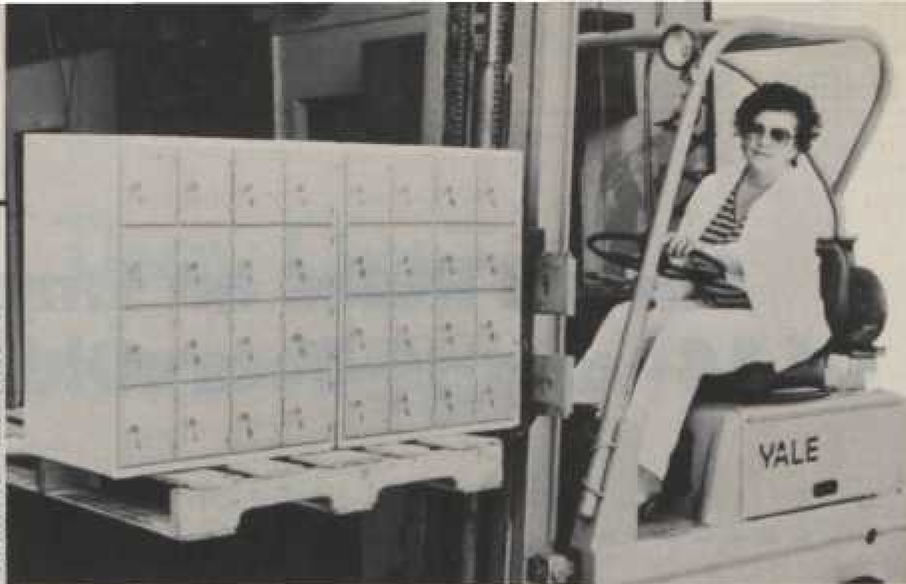
Gabrel now has 20 salaried employes and 20 more who work part-time or on an hourly basis. About 140 sales representatives promote the game, which is sold all over the United States and in Australia and Canada.

"A lot of people dream about inventing a game and getting rich," says Gabrel. "The reason I was successful was that I had an idea that was right—I don't know whether it was insight or luck—and I persevered." He also credits his game-loving friends with giving him good suggestions along the way.

He has little time to play Pente now. "A lot of my free time is spent playing games sent in by other inventors who want to get their games on the market," says Gabrel. "It's also frustrating because in many cases I have to mete out the same kind of rejections I faced when I was trying to get started. I try to give inventors encouragement."

The game, which was first made only with a wooden board, now also comes with more portable vinyl boards and a glass board. Prices range from $15 to $90. I'm shooting for a gross of $8 million or $9 million this year," says Gabrel, who hopes Pente gives backgammon a run for its money.

PHOTO: SECURITY MANUFACTURING CORPORATION



No P.O. box available? Most private services you'd use buy boxes from Janie D'Addio.

Posting a Profit With Postal Boxes

What began as an aggravating experience for Janie D'Addio turned into a multimillion-dollar industry within 2½ years.

When D'Addio, 44, retired from her successful real estate business, she and her husband began settling in their mobile home in Newport Beach, Calif. They needed a post office box. But the waiting list at the U.S. Post Office was so long that D'Addio turned to a nearby private service, a commercial mail-receiving agency.

"The man running it rented 500 boxes and was making about $85,000 a year," says D'Addio. "I decided that it would be a good business to be in, so I opened three receiving agencies."

Such agencies charge about $8 a year for a small box that would cost perhaps $2 at a U.S. Post Office, if available. But most private operators provide additional services—letting customers call to ask whether they have any mail, for example.

D'Addio bought her boxes from a company in Los Angeles that sold the rejects from government contracts. "The quality was poor," she says, "and the price was outrageous."

So she decided to make boxes to supply receiving agencies like hers. She founded Security Manufacturing Corporation in 1980. "At first I contracted everything out," she says. "The business just went wild. In two years I've gone into a 10,400-square-foot building."

She outmaneuvered her competition by providing a top-quality product at 40 percent less cost. A unit of small boxes costs about $15 per opening. She also provides customers with a guidebook on running a private postal service. And she puts together package deals that include everything needed to run a full-service operation—one that can send, receive and forward mail; handle United Parcel Service, Federal Express and parcel post; wrap packages; make photocopies; take passport photos; make keys; send film for processing; send messages by Western Union or electronic mail; print business cards; and provide secretarial service. D'Addio estimates that a full-service business involves start-up costs of $10,000 to $20,000, depending on the location.

D'Addio now has an interest in 14 receiving agencies in addition to the postal box manufacturing company. "One reason these private services succeed is that they take a low initial investment, and it's such an easy job," D'Addio says.

She estimates that her company supplies about 75 percent of the boxes used by the more than 2,000 commercial mail-receiving agencies in the country, but the marketplace is virtually untapped, she says. She is counting on growing demand to bring more customers for her boxes and an expected $4 million to $5 million in sales in 1982. □

PHOTO: PENTE GAMES

Gary Gabrel's strategy combines Chinese games, a Greek theme and Yankee marketing.

Should Rules on Employment Of 14- and 15-Year-Olds Be Eased?

This Is Where I Stand:

YES ☐ The Labor Department plan to provide more opportunities for these teen-agers in nonhazardous jobs deserves business support. Young people in that age group generally are eager to begin earning their own money, and the proposal to let them work contains sufficient safeguards to prevent abuses. They would gain valuable experience that would help them get better jobs.

NO ☐ Opening more jobs to teen-agers would simply foreclose those jobs to older workers more in need of employment. Furthermore, easing child-labor laws to enable employment of 14- and 15-year-olds would be simply the first step toward a massive breach in those laws. Even with the suggested safeguards, the plan would pose dangers to these young people.

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VERDICT: Don't Roll Back Tax Relief

NATION'S BUSINESS readers, asked in the July issue where they stood on rolling back scheduled tax relief to reduce federal deficits, have responded with overwhelming opposition.

More than 95 percent of those replying to the poll voted to retain tax relief and supported the view that the deficit should be reduced instead through further reductions in federal spending.

Those favoring a narrowing of the scope of tax cuts supported the argument that the economy would benefit more if deficits were reduced and interest rates fell than it would from short-term tax relief.

The question introduced the new "Where I Stand" feature, designed to obtain views of readers on issues of major concern to business. Results will be brought to the attention of key decision makers in Congress, the White House and federal agencies.

They Dig Archaeology

By John Costello

Every archaeologist knows in his heart why he digs. He digs, in pity and humility, that the dead may live again, that what is past may not be forever lost, that something may be salvaged from the wreck of ages.

Testimony of the Spade
Geoffrey Bibby

SAY YOU'RE a Texan, living around Comstock or Del Rio, about 7,200 years ago. It's a swell neighborhood. Lots of chert around to make arrowheads and hide scrapers.

Good grassland, too, for your sources of meat.

Then there's at least one very choice residential site.

Try this on for size—a limestone overhang about 300 feet up a bluff that looks out over a clear, sparkling fork of Devil's River. Beautiful view, plus a cold-water stream, jumping with fish, right in your own front yard.

Mortgage at 16.5 percent? Forget it! Just move right in.

Since then, however, the neighborhood has declined. The climate has changed. Where once fat bison grazed, ankle-deep in lush grass, today prairie dogs and rattlesnakes hustle for a living in arid semidesert.

But there's still evidence of the gracious living the site once afforded. Ask Frank J. Spingola. He has been to this Neolithic garden spot in southwestern Texas, now known as Baker's Cave, and he knows.

How did Spingola, 54, office manager for American Licorice Company, of San Francisco, wind up there?

"I thought I'd like archaeology," he says. "It sounded

A 150,000-year-old tool is one find at the Ngwenya site in Swaziland. Eager amateurs often work with archaeologists.

Artifacts left behind by our ancestors can be sophisticated (those in the center are from a Mexican temple) or primitive.

adventurous. So I went on a dig at Baker's Cave, and I was hooked. The cave has been lived in, off and on, since at least 7000 B.C. It's an ideal dig site—about 40 feet deep and 80 feet long. It's sheltered from the weather, and rock particles and dust fall to the floor from the limestone roof.

"So there are different levels, like a layer cake, to the floor. You find artifacts in strata when the cave was inhabited, then just a layer of limestone dust.

"What do I like about it? Well, it's like a detective story. An archaeological dig is a team effort. You find scattered bits of information, and you try to put them together to solve puzzles of earlier human existence.

The Cave of the Beer Pots provided early man with ready-made shelter—and archaeologists with treasures.

"Then there's the thrill of discovery.

"At Baker's Cave, I picked up a piece of a small sandal that was probably 2,000 years old. No hand had touched it for centuries. Yet here was this memento, something to shield the soft foot of one of our own kind who had crossed this way so long ago."

ARCHAEOLOGY is the study of man's past from the clues he has left behind in the dust—tools, tombs and treasures. His written history only scratches the surface of his life here. That goes back a mere 5,000 years. Yet he was adorning the walls of French caves with exquisite, sophisticated paintings an estimated 40,000 years ago.

Archaeology is a relatively recent hobby and science. Sure, humanist popes and noblemen in 16th-century Italy sponsored excavations. But these were more treasure hunts to find ancient works of art than scientific digs.

Napoleon's invasion of Egypt in 1798 touched off a feverish interest in antiquities from the land of the Nile. Also, organized tomb robbing.

But two books did more for the science. Until Charles Lyell's *Principles of Geology* was published in the 1830s, it was the accepted wisdom that man's history went back only to about 4004 B.C. Charles Darwin's *On the Origin of Species*, published in 1859, helped clinch the idea that homo sapiens had been around a lot longer than that.

Heinrich Schliemann may have been the real founder of scientific archaeology with his excavations, in the 1870s, of ancient Troy and Mycenae. The retired German businessman's digs helped prompt the founding of the Archaeological Institute of America in 1879.

Today AIA has 10,000 members. Most are amateur enthusiasts, not professionals, Executive Director Eugene Sterud explains. But the number of armchair archaeologists far exceeds that. The institute's magazine, *Archaeology*, has 60,000 subscribers, almost all hobbyists.

Their hobby is not like yachting, which someone once said is like standing under a shower and tearing up $100 bills.

"Digging doesn't require much equipment," Sterud says, "only small tools like a trowel, a penknife, a 5-meter metal tape measure, maybe a feather duster. Most of the expenses are for travel."

On the average, a recent marketing study for *Archaeology* shows, hobbyists spend $2,010 yearly on vacation and travel. Seven out of 10 hold professional or managerial jobs. Nearly half have done some graduate work.

At one time, the ferrous metal that builders worked with was either cast iron or wrought iron. One was hard but brittle, the other shock-resistant but soft.

But in 1856, an English inventor named Henry Bessemer made a revolutionary discovery. By blowing oxygen through molten iron, you could make steel. Add charcoal and you had tough carbon steel.

Just a few years ago, Raymond L. McCarthy, on his first archaeological dig, in southern Africa, made an equally astonishing discovery.

"Prehistoric man," he says with awe, "knew how to do that thousands of years ago."

Each time a cave was inhabited, its residents left a layer of clues to the puzzle of prehistory.

PHOTOS EARTHWATCH

Archaeology is full of surprises, McCarthy finds.

"It's kind of a laboratory science," says the director of a research and development laboratory at Du Pont Company, Wilmington, Del. "Both my wife and I enjoy it."

Their interest was kindled by Earthwatch. "Seven years ago, my wife and I were visiting our daughter in Boston. We read an article in the *Boston Globe* about Earthwatch. It told how this organization gave people with no skills, but with enthusiasm and the desire to learn, the chance to go on research expeditions with scientists from universities and museums.

"Many were archaeological digs.

"It sounded interesting, so we wrote for a brochure. And oh, man, when it came,

it was like being a kid at Christmastime. We both sat down and looked at all the expeditions you could join—to South Africa, Egypt, Israel, Guatemala, Norway, Scotland.

"My wife and I had traveled a lot, but always to Europe as tourists. This looked like a chance to really do something on our vacation. So we picked out an expedition to Swaziland."

THAT WAS in 1977. Since then, they have been on two other expeditions—one to Egypt and another to England to dig for the remains of a Saxon cathedral razed by Vikings.

"The first trip did it," he says. "Swaziland is unbelievable. Put a plow in the ground almost anywhere and you're likely to come up with a Stone Age ax that's 12,000 years old."

The McCarthys' team was looking for Iron Age furnaces.

"There's lots of iron ore there," Raymond McCarthy says, "so we had no trouble finding a furnace. Ours was on the banks of an old, dry streambed. It was thought that these prehistoric people heated iron ore and charcoal to about 1,400 degrees Fahrenheit, then drew out the metal and pounded it into shape. That would be wrought iron.

"But a metallurgist with us was puzzled because the furnace had three ports, or openings.

"After we got home, a group from Brown University discovered that the extra ports were for bellows. With bellows they got the temperature in the furnace up to about 2,200 degrees so that the charcoal dissolved into the slag. The metal that came out was high-quality steel.

"Europe didn't know this method until Bessemer discovered it."

Why does archaeology fascinate McCarthy?

"For one thing, I'm very much interested in history. And what you find tells you about early man. It's often quite different from what's written in books today, thousands of years later. For example, most of us picture early man as a rather savage fellow. When you dig, however, you find no evidence of that.

"His tools were not made to bash in someone's head. They're butchering and scraping tools.

"Our Stone Age ancestors killed game, not each other."

Why would a young woman who grew up in Denver have an irresistible urge to go to the Dark Continent? Hardly roots. Lynn Dyer's grandparents came from England. Love of travel? Well, there's also Asia, Europe, the Land Down Under, the South Seas and Latin America.

Comfortable with the language? Dyer, 31, couldn't say "Down the hatch" or "Up the Republic" in Bantu.

Even she is at a loss for an explanation.

"I always wanted to go to Africa," she says, "even as a kid. But I don't know why."

Dyer, a software saleswoman for Peat, Marwick, Mitchell & Company in Chicago, finally made it there three years ago.

"When I got my M.B.A.," she says, "I gave myself a trip to Africa as a graduation present. It was a camera safari to Kenya. I've been back twice since then, both times on Earthwatch archaeology digs.

"I found the safari a little dull, but never the digs. The charm of archaeology is that you never know what you'll find. Originally I wondered: Do I have the patience to spend two weeks of vacation in a tiny square of dirt, scraping away at it? But I never tired of it."

This August she spent her vacation on a dig in the Cave of the Beer Pots—named for its odd lava formations—in Swaziland. The goal was to validate earlier finds that put homo sapiens, "modern" man, in Africa as early as 115,000 years ago.

How could that drag you from Chicago's lakeshore breeze in midsummer?

"I've always been interested in man's origins," Dyer says. "I like to participate in something that would help unravel part of the mystery."

JOHN M. BRADLEY, JR., was on an Aeroflot jet, flying home after chaperoning the Indian Springs prep school's glee club on its 1970 concert tour behind the Iron Curtain, when a newspaper article caught his eye.

"It was on page 1 of an English-language paper published in Paris. It was about an American expedition to Mount Ararat that hoped to find the remains of Noah's ark. Mount Ararat is in northeastern Turkey, and the Turkish government had given permission for the expedition.

"But then it precipitately ordered the Americans off the mountain, allegedly for security reasons."

Why would an item like that rivet the attention of the president of an international forestry management firm, Resource Management Service, Birmingham, Ala.?

"I've always been interested in biblical archaeology," he says.

The ousted expedition had been backed by SEARCH—Scientific Exploratory Archaeological Research. The foundation's goal is to locate and identify the remains of Noah's ark through research and field expeditions.

Bradley is now president of SEARCH.

"The expeditions are very scientific, well staffed and with lots of gear," says the 57-year-old businessman. "So you need the full range of permits from almost every department of the Turkish government, including the Department of Antiquities. No one was able to get all the clearances needed to go to Mount Ararat again until recently, when the final permit was given to James Irwin, an Apollo 15 astronaut. And he has asked me to go along with him."

Bradley has been to digs at the ancient cities of Ai and Bethel, both conquered by Joshua after the walls of Jericho fell.

Why did he go?

"The sites are in dispute," he says. "Where some archaeologists locate them, you don't find a good topographic fit as described in Scripture. We think these sites are mislocated by several miles. Where we dug, the mid-Bronze Age artifacts necessary for confirmation were eventually found."

Is he afraid archaeology might show Scripture to be in error?

"No," he says. "I don't think archaeology has ever done anything but corroborate it." □

The grid will enable archaeologists to reconstruct the position of any bones or tools they find.

Saving Congress From Itself

ONE OF the best-kept secrets in Washington is the existence of a law requiring a balanced budget. Enacted in 1978, it is a model of legislative simplicity:

"Beginning with fiscal year 1981, the total budget outlays of the federal government shall not exceed its receipts."

That language offers no legitimate opportunity for escape via loopholes or claims of ambiguous language. But rather than comply, Congress has simply ignored the law.

In fiscal 1981, the total budget outlays of the federal government exceeded receipts by $58 billion. The deficit for the 1982 fiscal year is now estimated at $109 billion and that for 1983 at $115 billion to $140 billion, depending on the economic assumptions made.

Congress' disregard for the law is important to the current debate on adding a balanced budget amendment to the Constitution. (A report on the debate begins on page 32.)

The amendment would require Congress to adopt a deficit-free budget before the beginning of each fiscal year and would limit tax increases to the amount of growth in national income.

It specifies a vote of 60 percent of all members of Congress to approve a deficit and a majority of all members to raise taxes above the limit. That would be 321 and 268 members, respectively. (Legislation can normally be passed by as few as 26 senators and 109 representatives, a majority of a quorum in each house.) Terms of the amendment would be waived during a declared war.

Opponents have raised various objections to specific terms of the amendment and to using the Constitution to enforce fiscal policies. They say those policies should be determined by successive Congresses on the basis of economic conditions at the time.

They also argue that it is hypocritical for members of Congress to advocate a balanced budget amendment at the same time that Congress is voting for legislation that produces a series of massive deficits.

These arguments can only be considered in the light of larger questions: Do the American people want a balanced budget? What is the best way of achieving that goal?

Poll after poll has answered the first question. The general public overwhelmingly favors a requirement that the budget be balanced.

As for the second question, it is argued that Congress can achieve fiscal balance through its normal legislative processes and that it is not necessary to revise the Constitution. But the experience with the present balanced budget law is incontestable evidence of how normal legislative processes fail to blot out red ink.

Sen. Strom Thurmond (R-S.C.), chairman of the Senate Judiciary Committee and a leader in the fight for the amendment, says, "Congress has violated its own law in recent years in enacting federal budgets that are not balanced.... A constitutional amendment is the only way."

There is another argument: Even if you accept the premise that Congress will not adopt an effective balanced budget plan on its own, it is somehow unsportsmanlike for members to press for an amendment at a time of record deficits. Amendment sponsors are simply trying to divert attention from the flood of red ink, it is alleged.

What if they are? There is scarcely a better time to begin imposing fiscal restraint than when spending is escalating dangerously.

And the argument that a constitutional amendment amounts to overkill in dealing with the problem is not valid. Hard experience has shown that Congress is more responsive to special interest groups' demands for higher spending than it is to the dictates of a fiscal restraint plan it has enacted into law.

A constitutional amendment requiring a balanced budget would, in a very real sense, save Congress from itself. It is unfortunate that the spending control issue has reached this point, but that is the reality of the situation.

The Senate has approved the amendment. The House should now do the same and let the states make the final decision, which almost certainly will be prompt ratification. □